

September | 2012

The Colorado Outlook

Economic and Fiscal Review



Governor's Office of State Planning and Budgeting



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Summary

- The General Fund revenue forecast for the current budget year (FY 2012-13) is 3.1 percent, or \$239.0 million, higher than the June forecast. Much of the increase is due to higher-than-expected revenue collected in FY 2011-12 and stronger growth in estimated payments from capital gains income than was forecast in June. Expected revenue now nominally exceeds the pre-Great Recession peak in FY 2007-08.
- General Fund revenue growth rebounded at a surprisingly robust rate over the past two fiscal years, a period of modest personal income growth. The strong revenue performance was in part due to a surge in capital gains income from the stock market as well as robust corporate profit growth. Revenue growth will slow, however, over the next two fiscal years as economic growth continues to be only modest and the factors that contributed to the recent growth are expected to diminish. General Fund revenue is estimated to increase 2.8 percent, or \$218.7 million, in FY 2012-13, and 2.4 percent, or \$191.4 million, in FY 2013-14.
- FY 2012-13 General Fund revenue will be \$717.1 million above current spending and reserve levels. All of the FY 2012-13 excess reserves are currently earmarked for the State Education Fund. The State's expected reserves are now similar to the levels experienced in the late 1990's, prior to the economic weakening that occurred after September 11th, 2001.
- Because revenue growth is forecast to be modest in FY 2013-14 and the year will start with a much smaller beginning fund balance, General Fund appropriations growth for FY 2013-14 will be less than current-year appropriations growth. Appropriations can grow 5.0 percent in FY 2013-14, while maintaining the required four percent reserve amount. This figure is subject to change based on updates to the revenue forecast and future budget actions.
- OSPB projects that cash fund revenue subject to TABOR will decrease 1.2 percent in FY 2012-13 and total \$2.5 billion. The expected decline is the result of a \$116 million drop in severance tax revenue, a consequence of low natural gas prices. In FY 2012-13, OSPB forecasts cash fund revenue will grow by \$105 million, or 4.2 percent, to \$2.6 billion.
- Economic indicators point to a slowdown in economic growth. This was expected in prior forecasts and is likely due in part to slowing in the global economy and heightened uncertainty among businesses and consumers. OSPB predicts that the modest slowdown will continue into 2013. Nonetheless, there continue to be positives in Colorado's economy. The housing market is beginning to recover along with the nation's. Further, new business formation has picked up and Colorado's entrepreneurial and talented population continues to build a stronger economic foundation. However, OSPB is maintaining a relatively cautious forecast as the economy continues to face several major uncertainties and risks, such as the continuing struggles in Europe and possible impending federal spending cuts and tax increases. These issues may result in more pronounced slowing than currently forecast. Alternatively, favorable resolution to these challenges and a positive economic response from the Federal Reserve's recent shift in policy could provide a boost to the pace of economic growth.



General Fund Budget

GENERAL FUND OVERVIEW AND BUDGET IMPLICATIONS OF THE FORECAST

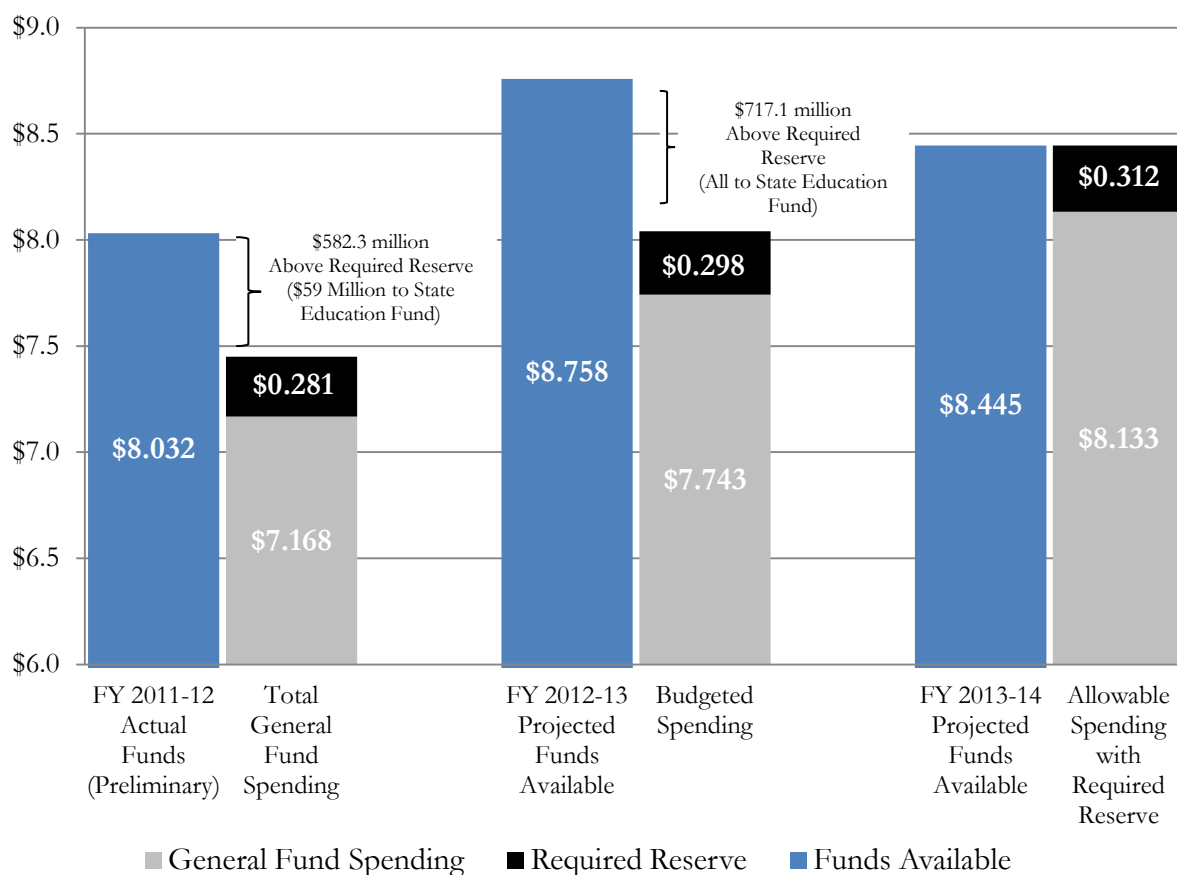
This section discusses General Fund revenue available for spending, current General Fund spending levels, and end-of-year reserves through the forecast period. The General Fund is the State's largest funding source and provides funding for its core programs and services, such as education, assistance to low-income populations, the disabled and elderly, courts, public safety, and the correctional system. It also helps fund the State's capital construction and maintenance needs for State facilities, and in some years, transportation projects. The largest revenue sources for the General Fund are income and sales taxes.

Table 1 following page 8 presents the General Fund Overview under current law and based on the September 2012 OSPB revenue forecast. These amounts are subject to change based on updates to the revenue forecast and future budget actions.

Summary of General Fund Overview – Figure 1 shows total actual and projected General Fund revenue available, total spending, and reserve levels from FY 2011-12 through FY 2013-14 based on the September forecast and current law. The figure also shows how much General Fund revenue is projected to be above the State's required four percent reserve level. The spending amount for FY 2012-13 is the budgeted amount under current law. The amount for FY 2013-14 represents the level of spending that could be supported by projected revenue while maintaining the required four percent reserve amount. The information in the figure is discussed in the following sections and is shown in further detail in Table 1 following page 8.



Figure 1. General Fund Money, Spending, and Reserves, FY 2011-12 through FY 2013-14 (\$ in Billions)



Total General Fund spending is currently budgeted to grow 8.0 percent, or by \$574.7 million, in FY 2012-13. Based on this forecast and spending under current law, General Fund revenue will be \$717.1 million above the budget authorized in FY 2012-13, including the reserve requirement. Because revenue growth is expected to be modest in FY 2012-13, much of this excess reserve is attributed to the large amount of reserves accumulated in FY 2011-12 (\$863.4 million), which mostly carried forward and became the \$804.4 million beginning fund balance for FY 2012-13. Of the FY 2011-12 excess reserves, \$59 million was transferred to the State Education Fund. Under current law, all of the FY 2012-13 excess reserves are earmarked for the State Education Fund.

Funds available – The top portion of Table 1 shows the amount of General Fund money available for spending. The forecast for General Fund revenue is discussed in further detail in the *General Fund Revenue Forecast* section starting on page 10. In addition to General Fund revenue, the amount of funds available includes the beginning fund balance, and any money transferred into or out of the General Fund from/to various State cash funds. The following table summarizes the amount of General Fund available by fiscal year. The decline in total General Fund money available for FY 2013-14 is attributable



to a much smaller beginning fund balance that year as all of the end-of-year excess reserves in FY 2012-13 are currently scheduled to be transferred to the State Education Fund.

GF Funds Available (\$ in Millions)			
	FY 2012-13	FY 2013-14	FY 2014-15
Beginning Reserve	\$804.4	\$297.5	\$312.4
General Fund Revenue	\$7,955.7	\$8,147.1	\$8,465.8
Net Transfers to/(from) the General Fund	-\$2.5	\$0.6	\$0.6
Total General Funds Available	\$8,757.6	\$8,445.2	\$8,778.8
<i>Dollar Change from Prior Year</i>	\$726.0	-\$312.4	\$333.6
<i>Percent Change from Prior Year</i>	9.0%	-3.6%	3.9%

Spending subject to the appropriations limit – Line 5 in Table 1 shows the amount of General Fund appropriations subject to the limit of five percent of Colorado personal income as specified in Section 24-75-201.1 (1) (a) (II) (A), C.R.S. This limit means that the level of General Fund appropriations for certain programs cannot exceed a dollar amount equal to five percent of total statewide personal income. The appropriations subject to the limit help fund the State’s largest core programs, such as K-12 education, Medicaid, human services, corrections, and higher education. The limit is projected to be \$10.7 billion in FY 2012-13. Thus, the General Fund appropriations for these programs are \$3.2 billion below the limit.

The General Fund appropriations for FY 2012-13 reflect current law and are subject to change based on future budget decisions. Appropriations for K-12 education and the Medicaid program comprise the largest amount of the increase in FY 2012-13. The FY 2013-14 and FY 2014-15 amounts reflect the level of spending that can be supported by forecasted revenue while maintaining the required reserve level of 4.0 percent of appropriations. These amounts will likely change based on changes to the revenue forecast and future budget decisions. The appropriation amounts in Table 1, as well as the dollar and percent change per year, are shown below.

GF Spending Subject to the Appropriations Limit (\$ in Millions)			
	FY 2012-13	FY 2013-14	FY 2014-15
Appropriations	\$7,438.1	\$7,809.4	\$8,136.0
<i>Dollar Change from Prior Year</i>	\$410.3	\$371.4	\$326.6
<i>Percent Change from Prior Year</i>	5.8%	5.0%	4.2%

Spending not subject to the appropriations limit – Lines 9 through 14 in Table 1 summarize spending that is exempt from or is outside the General Fund appropriations limit. The largest portion of this spending is “Rebates and Expenditures.” The largest programs in this line are: (1) the Cigarette Rebate, which distributes money from a portion of state cigarette tax collections to local governments that do not impose their own taxes or fees on cigarettes; (2) the Old Age Pension program, which provides assistance to eligible low-income elderly individuals who meet certain eligibility requirements; (3) the Property Tax, Heat, and Rent Credit, which provides property tax, rent, or heating bill assistance to qualifying low income disabled or elderly individuals; and (4) contributions to the Fire and Police Pensions Association (FPPA) to help fund the pension plans and other benefits of certain police officers



and firefighters. Projected expenditures for each of these programs are outlined at the bottom of Table 2 following page 14.

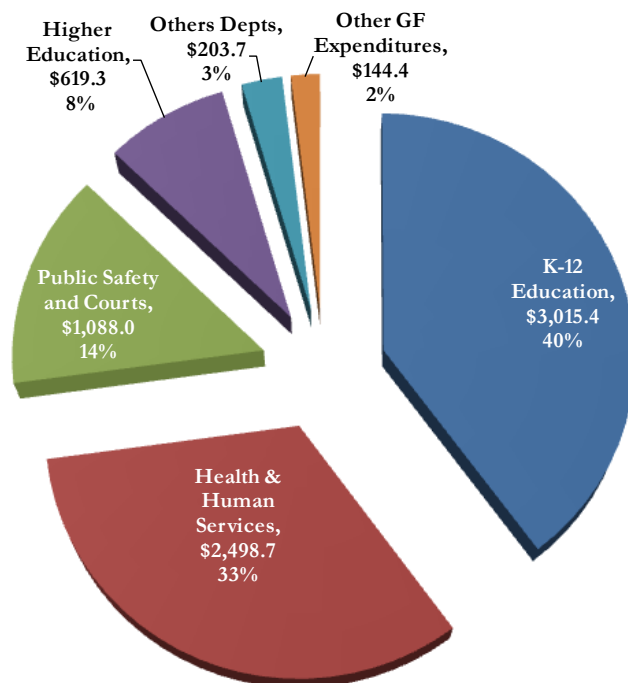
The homestead property tax exemption (Line 12 in Table 1) reduces property tax liabilities for disabled veterans, and starting again in FY 2012-13, qualifying seniors. The exemption can be reduced or eliminated by law in certain years for budgetary or policy reasons. The homestead exemption expenditure amount increases substantially under current law in FY 2012-13 to just under \$100 million as the exemption for qualifying seniors returns. From FY 2009-10 through FY 2011-12, the exemption was available only to qualifying disabled veterans.

Finally, spending not subject to the limit can include any TABOR refunds, which occur when State revenue exceeds its cap. TABOR refunds are not expected to occur during the forecast period as revenue will be about \$1 billion below the cap. General Fund money transferred for State capital construction and transportation projects are also not subject to the limit. The transfers can be made through legislation approved by the General Assembly and Governor. However, they are required if growth in statewide personal income exceeds five percent. This forecast projects that the trigger will not require transfers through FY 2014-15. In addition to in Table 1, the spending discussed above is summarized in the table below.

GF Spending Not Subject to the Appropriations Limit (\$ in Millions)			
	FY 2012-13	FY 2013-14	FY 2014-15
TABOR Refund	\$0.0	\$0.0	\$0.0
Rebates and Expenditures	\$146.3	\$154.0	\$146.6
Homestead Exemption	\$97.6	\$105.2	\$111.6
Transfers to Capital Construction	\$61.0	\$64.1	\$59.1
Transfers to Highway Users Tax Fund	\$0.0	\$0.0	\$0.0
Total	\$304.8	\$323.4	\$317.3
<i>Dollar Change from Prior Year</i>	\$120.5	\$18.5	-\$6.1
<i>Percent Change from Prior Year</i>	65.4%	6.1%	-1.9%



Composition of General Fund Budget in FY 2012-13– The following graph shows the composition of the General Fund budget for FY 2012-13 by major department or program area (\$ in millions).



Reserves – The final section of the General Fund Overview tables (“Reserves”) shows General Fund remaining at the end of each fiscal year. The “Year-End General Fund Balance,” in the overview table reflects the difference between total funds available (Line 4) and total outlays (Line 16). Line 19 shows the statutorily determined reserve requirement and the following line indicates any variance from the target (Money Above (Below) Statutory Reserve). After being \$582.3 million above the 4.0 percent of the appropriations requirement in FY 2011-12, the reserve will be \$717.1 million above the requirement in FY 2012-13 based on this forecast. Under current law, \$59 million of the FY 2011-12 excess and all of the FY 2012-13 excess is transferred to the State Education Fund.

Starting with calendar year 2012, if annual growth in statewide personal income is over five percent, current law requires a one-half of a percentage point increase in the reserve for five consecutive years until it reaches 6.5 percent of appropriations. This forecast projects that this increase will not be required through FY 2014-15. The dollar amounts for the required reserve and ending fund balance from Table 1 are shown below.

GF Reserves			
	FY 2012-13	FY 2013-14	FY 2014-15
Year-End General Fund Balance	\$1,014.7	\$312.4	\$325.4
Balance as a % of Appropriations	13.6%	4.0%	4.0%
General Fund Required Reserve	\$297.5	\$312.4	\$325.4
Money Above/Below Req. Reserve	\$717.1	\$0.0	\$0.0
Excess Reserve to State Education Fund	-\$717.1	N/A	N/A



State Education Fund – For informational purposes, the last line of Table 1 shows the amount of money credited to the State Education Fund both from Amendment 23 and other budgetary actions. Under the State constitutional provisions of Amendment 23, the State credits an amount equal to one-third of one percent of State taxable income to the State Education Fund to help fund preschool through 12th grade education in the state.

Under HB 12-1338, in FY 2012-13, the fund will receive \$59 million of the FY 2011-12 excess reserves, which is in addition to the annual diversion of a portion of taxable income. Current law diverts all of the FY 2012-13 excess reserves, a projected \$717.1 million, to the fund. The amounts to the State Education Fund are shown below.

State Education Fund			
	FY 2012-13	FY 2013-14	FY 2014-15
One-third of 1% of State Taxable Income	\$417.5	\$425.2	\$444.5
Money from Prior Year-end Excess Reserves	\$59.0	\$717.1	\$0.0
Total Funds to State Education Fund	\$476.5	\$1,142.4	\$444.5

Risks to the Budget Outlook

The economy is facing several major issues and uncertainties that make forecasting revenue especially challenging, including ongoing distress in Europe, federal fiscal issues, and a newly announced significant change in policy by the Federal Reserve. Thus, despite the resiliency and relative strength of Colorado's economy, OSPB is maintaining a relatively cautious forecast for FY 2012-13. OSPB projects continued growth, though at a slower rate. The economy, and thus the performance of revenue to the State, could be substantially impacted, either positively or negatively, by events surrounding any of the aforementioned issues. It is important to note that even relatively small changes in projected revenue growth rates result in large swings in the amount of money available. For example, if revenue growth were to increase or decrease by just four percentage points in FY 2012-13 from the current projected growth rate, General Fund revenue would be approximately \$300 million higher or lower.

Table 1
General Fund Overview
(Dollar Amounts in Millions)

Line No.		Preliminary FY 2011-12	September 2012 Estimate by Fiscal Year		
			FY 2012-13	FY 2013-14	FY 2014-15
Revenue					
1	Beginning Reserve	\$156.7	\$804.4	\$297.5	\$312.4
2	Gross General Fund Revenue	\$7,736.9	\$7,955.7	\$8,147.1	\$8,465.8
3	Net Transfers to/(from) the General Fund	\$138.0	(\$2.5)	\$0.6	\$0.6
4	TOTAL GENERAL FUND AVAILABLE FOR EXPENDITURE	\$8,031.6	\$8,757.6	\$8,445.2	\$8,778.8
Expenditures					
5	Appropriation Subject to Limit /A	\$7,027.8	\$7,438.1	\$7,809.4	\$8,136.0
6	Dollar Change (from prior year)	\$216.7	\$410.3	\$371.4	\$326.6
7	Percent Change (from prior year)	3.2%	5.8%	5.0%	4.2%
8	Exemptions to Limit and Adjustments to Appropriations /B	\$0.0	\$0.0	\$0.0	\$0.0
9	Spending Outside Limit	\$184.3	\$304.8	\$323.4	\$317.3
10	TABOR Refund	\$0.0	\$0.0	\$0.0	\$0.0
11	Rebates and Expenditures /C	\$133.2	\$146.3	\$154.0	\$146.6
12	Homestead Exemption	\$1.8	\$97.6	\$105.2	\$111.6
13	Transfers to Capital Construction /D	\$49.3	\$61.0	\$64.1	\$59.1
14	Transfers to Highway Users Tax Fund /D	N/A	N/A	\$0.0	\$0.0
15	Reversions and Accounting Adjustments	(\$43.9)	\$0.0	\$0.0	\$0.0
16	TOTAL GENERAL FUND OBLIGATIONS	\$7,168.2	\$7,742.9	\$8,132.8	\$8,453.3
Reserves					
17	Year-End General Fund Balance	\$863.4	\$1,014.7	\$312.4	\$325.4
18	Year-End General Fund as a % of Appropriations	12.3%	13.6%	4.0%	4.0%
19	General Fund Statutory Reserve /E	\$281.1	\$297.5	\$312.4	\$325.4
20	Money Above (Below) Statutory Reserve /F	\$582.3	\$717.1	\$0.0	\$0.0
21	Addendum: State Education Fund /G	\$638.5	\$476.5	\$1,142.4	\$444.5

Totals may not sum due to rounding.

- /A This limit equals 5.0% of Colorado personal income. The appropriations amounts for Fiscal Year 2011-12 and FY 2012-13 reflect current law. The amounts for FY 2013-14 and FY 2014-15 represent the level of spending that can be supported by projected revenue while maintaining the required reserve amount.
- /B Spending by the Medicaid program that is above the appropriated amount, called "Medicaid Overexpenditures," is usually the largest amount for this line.
- /C Includes the Cigarette Rebate, Old Age Pension Fund, Property Tax, Heat, and Rent Credit, and Fire and Police Pensions Association (FPPA) contributions as outlined at the bottom of Table 2.
- /D Current law requires transfers to capital construction and the Highway Users Tax Fund when personal income increases by more than 5.0 percent. This is not projected to occur until 2014, which will trigger the transfers in FY 2015-2016.
- /E The required reserve level is currently 4.0%. Current law requires the reserve to increase to 4.5 percent when personal income is projected to increase by more than 5 percent. This is not projected to occur until 2014, which will trigger the reserve increase in FY 2015-16. The reserve is further required to increase by 0.5 percentage points each year thereafter until it reaches 6.5 percent of appropriations.
- /F Per HB 12-1338, \$59.0 million of the FY 2011-12 excess amount and all of the FY 2012-13 excess amount is transferred to the State Education Fund. After the \$59 million transfer, the remaining amount of the FY 2011-12 surplus is carried forward and becomes part of the beginning FY 2012-13 balance.
- /G The State Education Fund annually receives one-third of 1% of Colorado taxable income. For FY 2011-12, it also received \$221.4 million of the FY 2010-11 Excess Reserve. Also in FY 2011-12, the fund received about \$9.6 million from the tax amnesty program created by SB 11-184. In FY 2012-13, the fund receives \$59 million of the FY 2011-12 excess reserves. For FY 2013-14, it receives all of the FY 2012-13 excess reserves, or a projected \$717.1 million.



General Fund Revenue Forecast

The General Fund revenue forecast for the current budget year (FY 2012-13) is 3.1 percent, or \$239.0 million, higher than the June forecast. Much of the increase is due to higher-than-expected revenue collected in FY 2011-12, some of which will be repeated this year. Last year saw continued strong performance from corporate income tax revenue, but also a larger-than-anticipated accounting adjustment to taxes withheld from wages of workers. Also, though still modest, the growth rate for FY 2012-13 revenue is slightly higher than forecast in June. OSPB has increased its projection for estimated income tax payments as Coloradans are expected to realize more income from capital gains than projected in June.

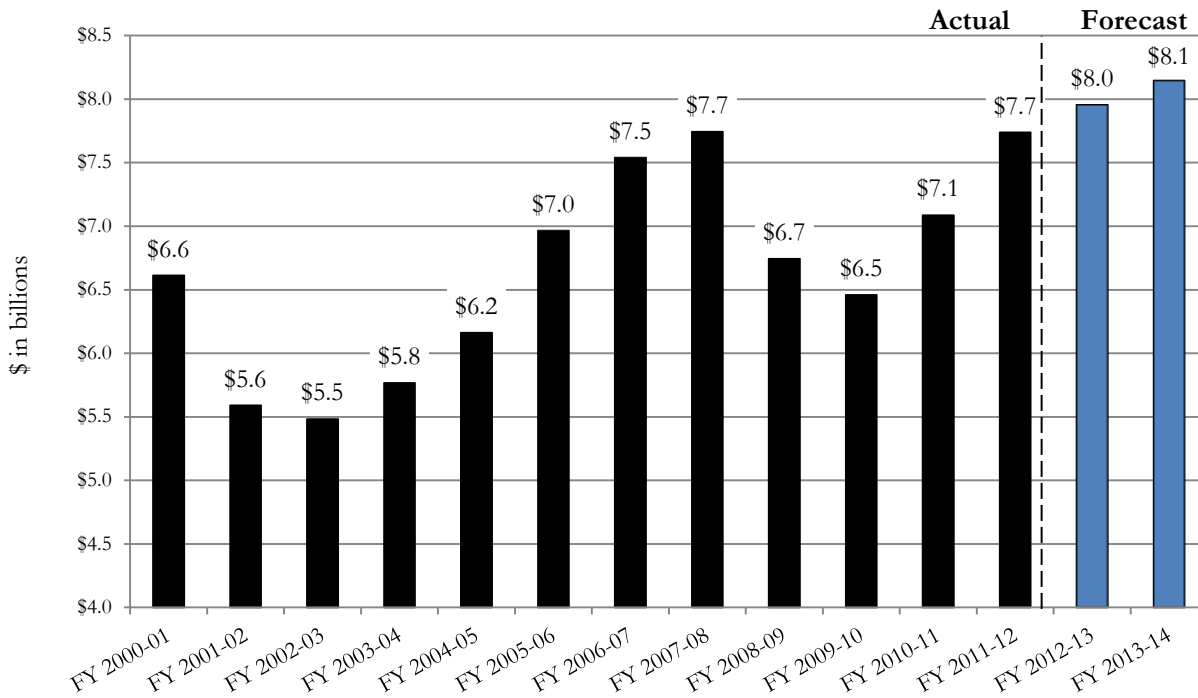
The upgrade to the current-year forecast is also notable because we now expect General Fund revenue to surpass pre-recession FY 2007-08 levels. In addition, given the new forecast, the unexpended money in FY 2011-12 and current spending levels indicate that the State's reserves are now similar to the levels experienced in the late 1990s.

The recent revenue performance of income taxes has been robust, more than would be expected from employment growth and other measures of the size and growth of the Colorado economy. From FY 2009-10 through FY 2011-12, total General Fund revenue jumped 19.8 percent, while personal income growth only increased 9.6 percent. The strong revenue performance over this period of modest income growth was most likely the result of investors realizing taxable capital gains income as the stock market rebounded robustly from its recession trough. In addition, rising corporate profits naturally produce rising tax receipts. The nature of the FY 2011-12 accrual accounting adjustments also boosted revenue last year by about \$150 million. Accrual adjustments are required so revenue collected is accounted for in the fiscal year in which the economic activity that generated the revenue occurs.

The above factors are expected to diminish and contribute to slower tax revenue growth this fiscal year and in FY 2013-14, especially as economic growth is expected to be modest. General Fund revenue is estimated to increase 2.8 percent, or \$218.7 million, in FY 2012-13. It is forecast to grow 2.4 percent, or \$191.4 million, in FY 2013-14. Figure 1 shows actual and projected total General Fund revenue from FY 2000-01 through FY 2013-14.



Figure 1. General Fund Revenue, Actual and Forecast, FY 2000-01 to FY 2013-14



Forecast Discussion of Major General Fund Revenue Sources

The following discusses the forecasts for the three major General Fund revenue sources – individual income taxes, corporate income taxes, and sales and use taxes. These sources represent 95 percent of total General Fund revenue. The section ends with a brief discussion of the General Fund revenue from other sources.

Individual income – Individual income tax revenue grew a robust 11.5 percent in FY 2011-12, mostly from estimated tax payments and taxes withheld from workers’ paychecks, which represents about 55 percent of total General Fund revenue. Tax refunds also posted an unexpectedly higher drop of 9.8 percent; refunds generally increase during periods of economic growth.

Revenue growth from income tax withholding will be muted in FY 2012-13 due to an expected modest slowdown in job growth and from an accrual accounting adjustment. The adjustment is a result of the timing of the June 2012 payroll period of many larger businesses which caused \$126 million in revenue collected in July to be “accrued” back to June and accounted for in FY 2011-12. Thus, this revenue will not be attributed to FY 2012-13 and a slight negative accrual accounting adjustment is expected.

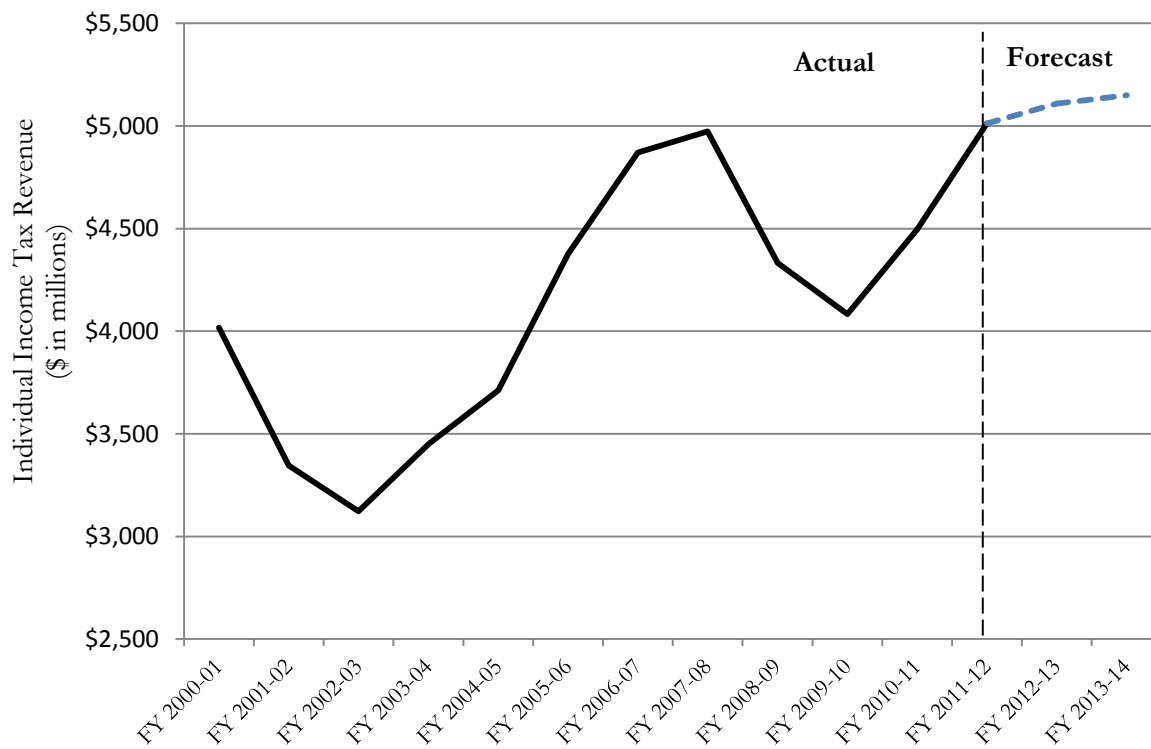
Income tax revenue from estimated payments is the third largest General Fund tax revenue source behind income tax withholding and sales taxes. The two largest contributors to this revenue are typically capital gains and owners of small and medium-sized businesses. Individual estimated tax payments closely track income to Coloradans from capital gains.



After dropping sharply during the recession, individual estimated payments are expected to continue to grow relatively strongly through this fiscal year. However, estimated payments are expected to fall slightly in FY 2013-14. This is mostly due to a scheduled federal tax increase on capital gains at the end of 2012 that is causing some investors to sell assets before it takes effect. This dynamic is “pulling” some income and tax revenue that would otherwise occur in FY 2013-14 into this fiscal year.

Total individual income tax revenue is expected to grow 2.0 percent this fiscal year and 0.8 percent in FY 2013-14. Figure 2 shows total individual income tax revenue from FY 2001-02 through FY 2013-14.

Figure 2. Individual Income Tax Revenue, Actual and Forecast, FY 2000-01 to FY 2013-14

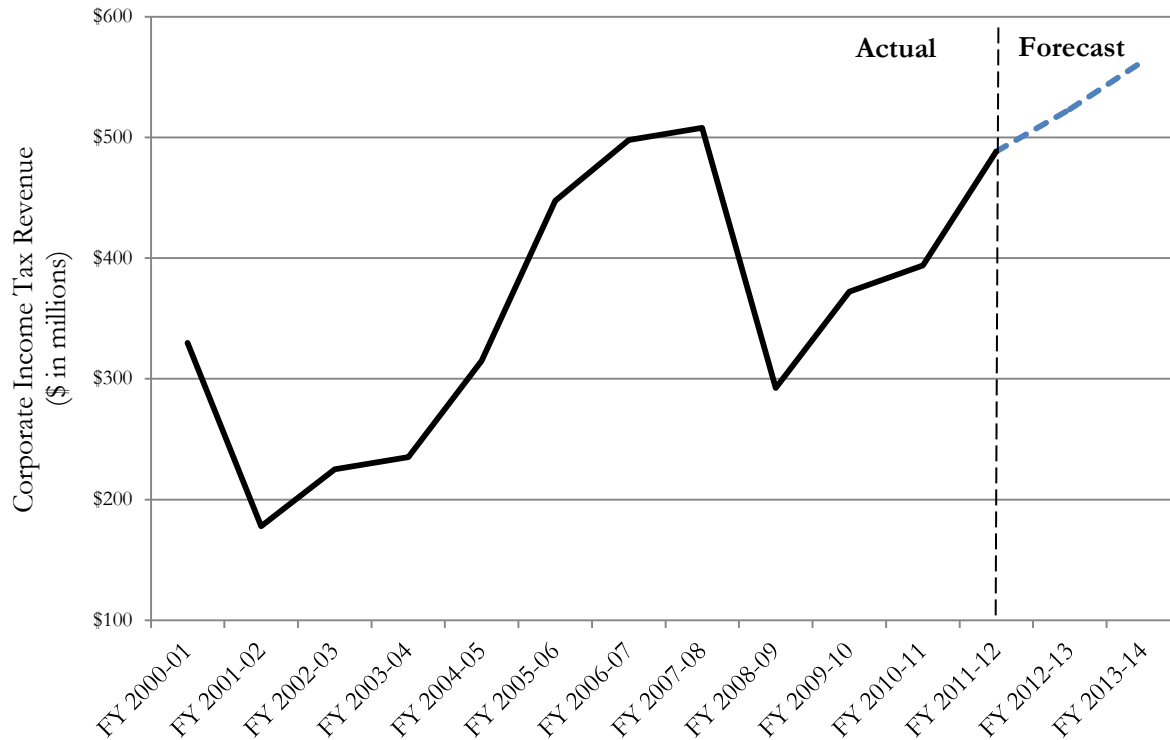


Corporate income – Corporate profit growth, and thus corporate income tax revenue, has increased strongly in recent years. However, FY 2012-13 corporate income tax revenue growth will slow as economic growth remains modest and as companies will likely not continue to benefit from the same productivity gains that increased margins after the recession. Also, elevated input costs, such as gasoline and other commodities, will cut into margins.

After increasing 24.0 percent in FY 2011-12, corporate income tax revenue will increase at a rate of 7.1 percent in FY 2012-13 and 7.7 percent in FY 2013-14. A graph of this forecast and historical corporate income tax collections is provided in Figure 3.



Figure 3. Corporate Income Tax Revenue, Actual and Forecast, FY 2000-01 to FY 2013-14



Sales and Other Excise Taxes

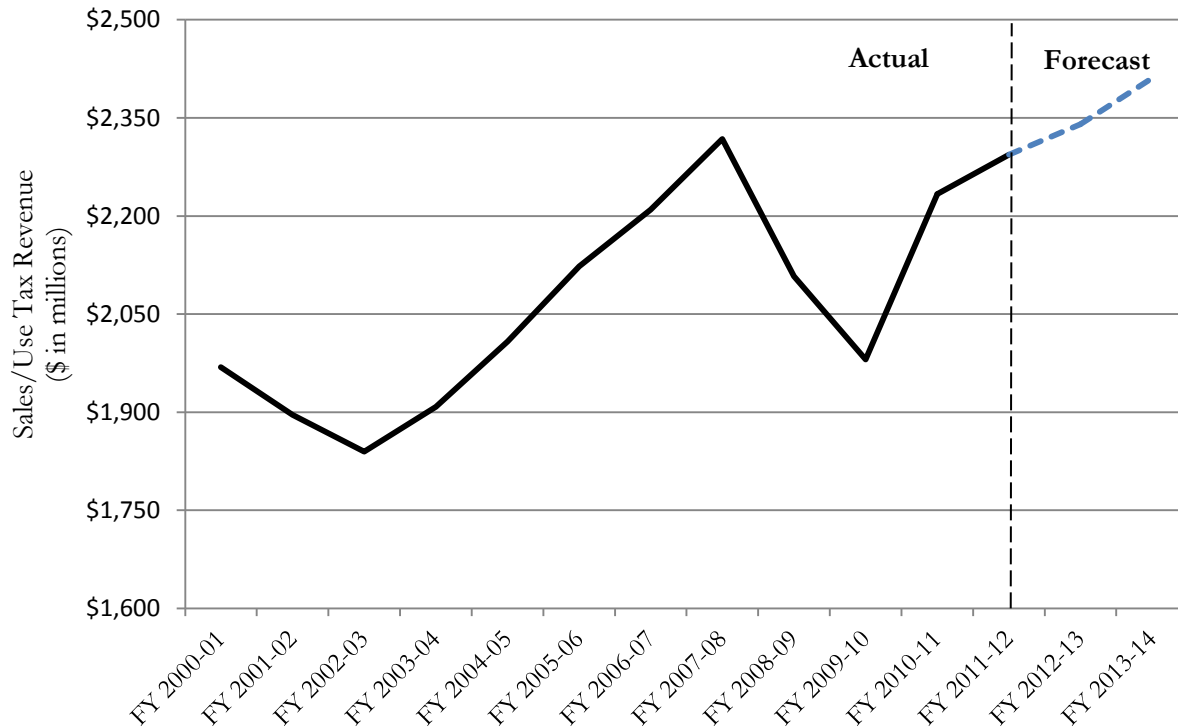
Sales and use tax revenue generally represents a little over 30 percent of total General Fund revenue. Sales tax revenue grew 2.4 percent in FY 2011-12. Some of the growth was tempered by the partial resumption of the vendor discount, which allows a portion of sales taxes collections to be retained by retailers. This reduced sales tax revenue collections in FY 2011-12 by about \$48 million. Sales tax growth will be modest this fiscal year, with an estimated growth rate of 1.9 percent, and in FY 2013-14 when revenue is projected to grow 2.8 percent. There are several factors contributing to these modest growth rates.

First, households continue to have high levels of debt which ties up income that could be used for consumption. Further, elevated costs for food and gas, which are not subject to the sales tax, will reduce spending on taxable items. Also, the current pace of sales cannot be sustained by the level of income growth. Some of the recent higher level of sales is likely due to pent-up demand for bigger ticket items, such as vehicles which generally represent about 12 percent of sales tax revenue, that were postponed during the economic downturn. As such, growth in purchases of these items should diminish somewhat. The scheduled reinstatement of the sales tax exemption on energy used for manufacturing and industrial purposes and the exemption of certain software purchases will temper revenue growth this fiscal year. The return of the sales tax exemption on cigarettes will lower revenue growth in FY 2013-14.



Finally, business spending on taxable items, which accounts for around 40 percent of sales tax revenue, is slowing and is expected to remain sluggish. Therefore, use tax revenue, which is mostly paid by businesses, will also post modest growth this fiscal year and next. Total sales and use tax revenue from FY 2000-01 through FY 2013-14 is shown in Figure 4.

Figure 4. Sales and Use Tax Revenue, Actual and Forecast, FY 2000-01 to FY 2013-14



Other Smaller Miscellaneous General Fund Revenue Sources

General Fund revenue from a group of miscellaneous sources will grow modestly over the forecast period. These relatively small revenue sources include taxes paid by insurers on premiums, interest income, pari-mutuel taxes, court receipts, excise taxes on cigarettes, tobacco, and liquor products, and starting in FY 2012-13, estate taxes. This scheduled reinstatement of the federal estate tax in 2013 will bolster this grouping of General Fund revenue sources starting in FY 2012-13. Colorado will see revenue from estate taxes again – \$45 million in FY 2012-13 and \$94 million in FY 2013-14 – because its tax is tied to the federal estate tax.

Table 2
Colorado General Fund – Revenue Estimates by Tax Category
(Accrual Basis, Dollar Amounts in Millions)

Line No.	Category	Preliminary		September 2012 Estimate by Fiscal Year					
		FY 2011-12	% Chg	FY 2012-13	% Chg	FY 2013-14	% Chg	FY 2014-15	% Chg
	Excise Taxes:								
1	Sales	\$2,093.2	2.4%	\$2,132.9	1.9%	\$2,192.3	2.8%	\$2,288.8	4.4%
2	Use	\$200.3	5.4%	\$207.4	3.6%	\$218.5	5.4%	\$234.7	7.4%
3	Cigarette	\$39.5	0.5%	\$36.4	-7.8%	\$35.5	-2.5%	\$34.1	-3.8%
4	Tobacco Products	\$16.0	16.1%	\$16.8	4.5%	\$16.4	-1.9%	\$17.0	3.1%
5	Liquor	\$38.4	5.3%	\$39.6	3.3%	\$40.2	1.5%	\$41.2	2.4%
6	Total Excise	\$2,387.4	2.8%	\$2,433.1	1.9%	\$2,503.0	2.9%	\$2,615.8	4.5%
	Income Taxes:								
7	Net Individual Income	\$5,011.7	11.5%	\$5,109.7	2.0%	\$5,149.6	0.8%	\$5,325.4	3.4%
8	Net Corporate Income	\$488.3	24.0%	\$523.2	7.1%	\$563.4	7.7%	\$599.8	6.5%
9	Total Income	\$5,500.0	12.5%	\$5,632.9	2.4%	\$5,713.0	1.4%	\$5,925.2	3.7%
10	<i>Less: State Education Fund Diversion</i>	<i>\$407.5</i>	<i>10.0%</i>	<i>\$417.5</i>	<i>2.4%</i>	<i>\$425.2</i>	<i>1.9%</i>	<i>\$444.5</i>	<i>4.5%</i>
11	Total Income to General Fund	\$5,092.5	12.7%	\$5,215.5	2.4%	\$5,287.8	1.4%	\$5,480.7	3.6%
	Other Revenues:								
12	Estate	\$0.3	-680.0%	\$45.0	N/A	\$94.0	108.9%	\$101.2	7.7%
13	Insurance	\$197.2	4.0%	\$204.7	3.8%	\$203.0	-0.9%	\$207.1	2.0%
14	Interest Income	\$14.4	82.7%	\$13.8	-4.3%	\$15.5	12.4%	\$16.2	4.0%
15	Pari-Mutuel	\$0.6	14.4%	\$0.5	-25.6%	\$0.4	-3.0%	\$0.4	-15.6%
16	Court Receipts	\$2.6	-27.6%	\$0.9	-67.1%	\$0.3	-70.6%	\$0.3	0.0%
17	Gaming	\$20.3	-0.5%	\$20.4	0.6%	\$20.4	-0.1%	\$20.6	0.7%
18	Other Income	\$21.6	1.7%	\$21.8	0.8%	\$22.7	4.2%	\$23.7	4.5%
19	Total Other	\$257.0	5.7%	\$307.1	19.5%	\$356.3	16.0%	\$369.3	3.6%
20	GROSS GENERAL FUND	\$7,736.9	9.2%	\$7,955.7	2.8%	\$8,147.1	2.4%	\$8,465.8	3.9%
	Rebates & Expenditures:								
21	Cigarette Rebate	\$11.2	1.8%	\$10.2	-9.1%	\$10.0	-2.5%	\$9.6	-3.8%
22	Old-Age Pension Fund	\$103.3	1.1%	\$112.4	8.8%	\$105.0	-6.6%	\$97.5	-7.1%
23	Aged Property Tax & Heating Credit	\$7.2	5.1%	\$7.2	-0.2%	\$7.2	1.0%	\$7.4	2.0%
24	Interest Payments for School Loans	\$0.9	17.1%	\$1.2	27.4%	\$1.2	0.0%	\$1.4	16.7%
25	Fire/Police Pensions	\$9.7	125.4%	\$14.5	49.3%	\$29.9	106.5%	\$30.0	0.3%
26	Amendment 35 General Fund Expenditure	\$0.9	1.9%	\$0.8	-10.5%	\$0.8	-3.0%	\$0.7	-4.6%
27	Total Rebates & Expenditures	\$133.2	5.7%	\$146.3	9.8%	\$154.0	5.3%	\$146.6	-4.8%



Cash Fund Revenue Forecast

Cash fund revenue subject to TABOR will fall \$31.2 million and total \$2.5 billion in FY 2012-13, a 1.2 percent decrease from FY 2011-12. While many cash fund revenue sources will grow in FY 2012-13, the increases will be offset by a decline of roughly \$116 million in severance tax revenue. This 55.7 percent decline in severance tax revenue is due to a combination of the drop in natural gas prices and taxpayers claiming ad valorem tax credits which will reduce severance tax liabilities.

FY 2013-14 cash fund revenue will increase \$105 million, or 4.2 percent, as severance tax revenue rebounds to a higher level of around \$193 million. OSPB forecasts growth in all cash fund revenue categories for FY 2013-14 with the exception of the hospital provider fee.

The following discusses the forecast for the State's major cash fund revenue sources and the numerous other cash funds grouped as miscellaneous cash funds.

Transportation-Related Cash Funds

Transportation-related cash fund revenue includes revenue to the Highway Users Tax Fund (HUTF) and various other transportation cash funds. OSPB projects that revenue to all transportation-related cash funds will be \$1.12 billion in FY 2012-13, an increase of \$4.2 million, or 0.4 percent, over FY 2011-12. The majority of transportation-related income goes to the HUTF in the form of vehicle registration fees, motor fuel tax revenue, and other transportation-related taxes and fees. Revenue to the HUTF is distributed according to a statutorily specified formula. A majority of the funds are distributed to the Colorado Department of Transportation, counties, cities, and the Colorado State Patrol for transportation-related activities.

Growth in transportation-related revenue is attributable in large part to the continued heightened number of new vehicle registrations. Motor vehicle registrations in calendar year 2012 have remained significantly above those in 2011. However, this trend will likely be tempered as the boost in demand spurred by low interest rates and loosening credit requirements for auto loans is reduced in calendar year 2013. Additional revenue growth is also attributable to the tax and fee revenue associated with growth in Colorado's economy, including specialty license and permit fees and greater fuel tax revenue.

Transportation revenue is expected to grow again by approximately 1.4 percent, or \$15.6 million, to \$1.13 billion in FY 2013-14 as mild economic growth continues and fuel tax collections rebound slightly from slower growth in FY 2012-13.



Limited Gaming

Limited gaming revenue will total \$110.4 million in FY 2012-13, reflecting a 5.3 percent increase over FY 2011-12. Much of the increase is due to the implementation of a higher tax rate, which resulted from the Colorado Limited Gaming Control Commission unanimously overturning the five percent rate cut that was in effect for FY 2011-12. Of the \$110.4 million in expected revenue for FY 2012-13, \$11.4 million will be attributed to “extended limited gaming” under Amendment 50 to the Colorado Constitution. Most of this Amendment 50 revenue is distributed to the community colleges, Colorado Mesa University, and Adams State University. This amendment allowed for extending gaming hours, higher betting limits, and a greater variety of games. Per the amendment, the extended limited gaming revenue is exempt from TABOR and is thus not reflected in the cash fund revenue forecast in Table 3. “Base limited gaming revenue,” which represents revenue not attributable to Amendment 50, will increase to \$96.5 million in FY 2012-13 as is shown in Figure 5.

While the return of a higher tax rate is expected to boost revenue in FY 2012-13, the economic factors weighing on Colorado households will continue to act as a drag on gaming activity and thus gaming-related revenue to the State through FY 2013-14. Faced with the headwinds of persistent unemployment and economic uncertainty, households are continuing to hold back spending on some discretionary activities such as gaming. Limited gaming revenue is expected to rise again in FY 2013-14 to \$117.5 million. Figure 5 details the forecast for all gaming revenue, including both TABOR-exempt revenue designated by Amendment 50 and base limited gaming revenue that is subject to TABOR. The table also shows the allocation of gaming revenues as prescribed by current law.

Figure 5. Distribution of Limited Gaming Revenues

Distribution of Limited Gaming Revenues	Preliminary FY11-12	Forecast FY 12-13	Forecast FY 13-14	Forecast FY 14-15
A. Total Limited Gaming Revenues	\$104.8	\$110.4	\$114.7	\$122.6
Annual Percent Change	-3.0%	5.3%	3.9%	6.9%
B. Base Limited Gaming Revenues (max 3% growth)	\$95.6	\$96.5	\$99.4	\$102.4
Annual Percent Change	-2.2%	3.0%	3.0%	3.0%
C. Total Amount to Base Revenue Recipients	\$82.6	\$88.2	\$91.2	\$96.0
Amount to State Historical Society	\$23.1	\$24.7	\$25.5	\$26.9
Amount to Counties	\$9.9	\$10.6	\$10.9	\$11.5
Amount to Cities	\$8.3	\$8.8	\$9.1	\$9.6
Amount to Distribute to Remaining Programs (State Share)	\$41.3	\$44.1	\$45.6	\$48.0
Amount to Local Government Impact Fund	\$3.3	\$3.7	\$4.0	\$4.3
Colorado Tourism Promotion Fund	\$11.0	\$12.5	\$13.2	\$14.4
Creative Industries Cash Fund	\$0.9	\$1.0	\$1.1	\$1.2
Film, Television, and Media Operational Account	\$0.2	\$0.2	\$0.3	\$0.3
Bioscience Discovery Evaluation Fund	\$4.0	\$4.5	\$4.8	\$5.2
Innovative Higher Education Research Fund	\$1.5	\$1.7	\$1.8	\$2.0
Transfer to the General Fund	\$20.3	\$20.4	\$20.5	\$20.6
D. Total Amount to Amendment 50 Revenue Recipients	\$8.6	\$9.6	\$11.0	\$14.1
Community Colleges, Mesa and Adams State (78%)	\$6.7	\$7.5	\$8.5	\$11.0
Counties (12%)	\$1.0	\$1.2	\$1.3	\$1.7
Cities (10%)	\$0.9	\$1.0	\$1.1	\$1.4



Hospital Provider Fee

Hospital provider fee revenue, one of the largest cash fund revenue categories subject to TABOR, will continue its strong growth trend in FY 2012-13, increasing by 9.7 percent to \$643.4 million. However, revenue will fall by 5.5 percent to \$607.7 million in FY 2013-14 due to an anticipated reduction of the hospital provider fee assessment that will occur because there will be no large transfer from the hospital provider fee fund to the State General Fund, as was the case in FY 2011-12 and FY 2012-13 per SB 11-212.

Provider fee revenue collected by the State allows matching funds from the federal government to increase Medicaid reimbursements to hospitals that pay the fee. The fees are assessed as a percentage of net patient revenue; thus fee revenue has increased steadily as healthcare costs grow and a greater number of Medicaid-eligible patients have been enrolled for coverage. SB 11-212 will increase revenue by increasing fees paid to the Hospital Provider Fee Cash Fund by an estimated \$25 million in FY 2012-13 to offset State General Fund expenditures for the Medicaid program.

Severance Tax

Severance tax is paid on all types of extracted minerals, including metallic minerals, molybdenum, coal, oil, and natural gas. The most significant source of severance tax revenue is oil and natural gas production. Severance tax revenue will total nearly \$92 million in FY 2012-13, a decrease of 55.7 percent, or \$115.7 million, from FY 2011-12. Severance tax fund revenues will increase to \$192.6 million in FY 2013-14, reflecting a rebound in natural gas prices and smaller ad valorem tax credits compared with FY 2012-13.

Because severance tax from natural gas production is the largest type of severance tax revenue, the price of natural gas significantly impacts the total amount of severance tax collected each year. The average price of natural gas for Colorado producers in 2012 is expected to be \$2.72 per thousand cubic feet (Mcf). This low price reflects the impact of a number of factors, including a historically large stored natural gas inventory after the warmer-than-average winter and continued growth in natural gas supply across the United States. However, as natural gas producers nationwide cut back on drilling operations due to the reduced profitability in light of lower prices, and as consumption of natural gas increases with the onset of winter, the supply and demand of natural gas will move closer to balance. This is projected to cause the price of natural gas to increase to an average of \$3.42 per Mcf in 2013.

It should be noted that due to the complexity of the natural gas market, and the very large number of factors that influence the market, the price of natural gas may change rapidly and cause higher or lower severance tax revenue than forecast. Specifically, if natural gas producers respond to the lower prices by more sharply decreasing production and supply is reduced, the price of natural gas will move higher than projected. This will especially occur with a cold winter and if higher amounts of natural gas are used for the generation of the nation's electricity needs and in manufacturing processes. Additionally, low prices and large supplies have spurred construction of facilities to export natural gas out of the United States. While these facilities are not expected to be fully operational in the near term, sooner-than-expected completion would expose domestic natural gas supply to the global market which could cause a material increase in the price of natural gas.



On the other hand, several factors could cause the price of natural gas to fall below the forecast target, including the re-introduction of imported Canadian natural gas, a greater-than-estimated supply of natural gas in wells that are not fully completed, or a large amount of “nuisance gas,” which is produced as a byproduct of drilling for natural gas liquids, such as propane. Additionally, an especially mild winter would lead to lower demand for natural gas as a heating fuel.

While natural gas prices are forecast to rise, oil prices will remain near current levels, averaging approximately \$90 per barrel in 2012 and growing to \$95.74 per barrel for 2013. Similar to natural gas, new technologies have allowed drilling for oil in a greater number of locations with large producing capability. This increased drilling activity has led to an increased supply of oil and, with demand remaining relatively flat, will put downward pressure on prices for petroleum and petroleum products. Like natural gas, this expectation may change due to many factors, including oil market disruptions caused by conflict elsewhere in the world or the opening of American oil production for export to global markets.

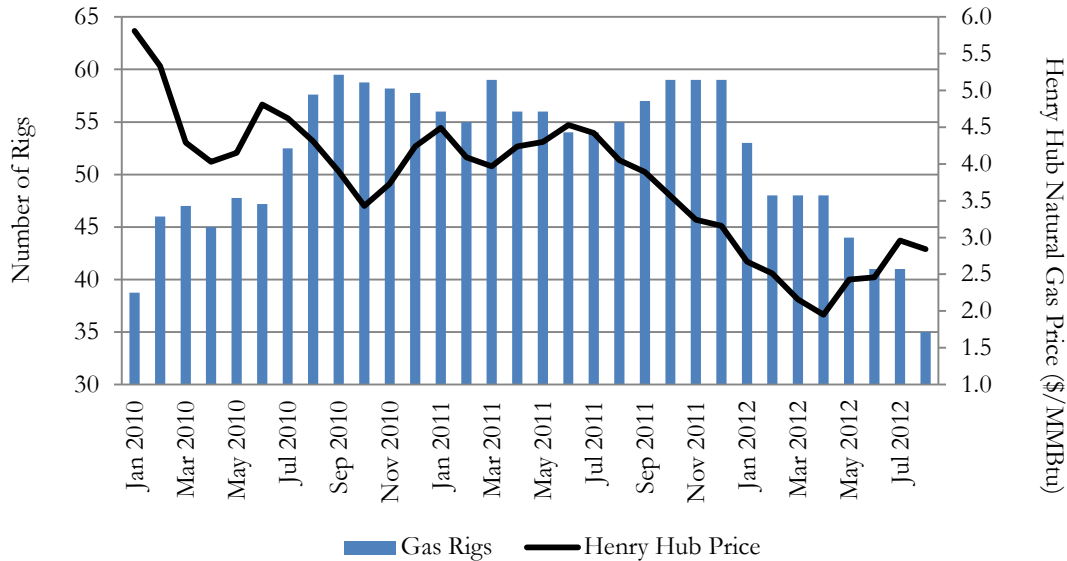
An additional factor to energy prices that will drive lower severance tax revenues in FY 2012-13 is the effect of the ad valorem tax credits that will be claimed by taxpayers. Owners of oil and gas production pay local government property tax on the value of the oil and gas that is extracted and sold each year. Taxpayers are allowed to deduct 87.5 percent of the local property taxes paid on oil and gas production from their severance tax liability. The amount of the credit is generally based on the value of production from the *prior* year. This will exacerbate the decline in severance tax revenue from FY 2011-12 as larger tax credits based on the previous year’s production value, when energy prices were higher, are deducted from the current year’s lower gross severance tax liabilities due to the drop in prices.

As a result of the decrease in natural gas prices, the number of natural gas drilling rigs in Colorado have declined and producers have focused more on oil drilling. Figure 6 illustrates the drop in active natural gas rigs from 59 in December 2011 to 35 in August 2012, the most recent month for which data is available.

On the contrary, prices for oil have remained higher and the number of oil rigs have not shown a downward trend. Figure 7 illustrates the number of oil drilling rigs operating in Colorado along with the monthly average West Texas Intermediate crude oil price since January 2010. In addition to the higher price of oil, the number of oil drilling rigs has increased as a result of the discovery of new oil deposits in the Niobrara region of northeastern Colorado. Newer drilling technologies have made drilling for oil in many areas, including the Niobrara region, possible and more profitable. Weld County in particular remains the area with the greatest amount of new oil drilling activity. This activity will generate increasing severance tax revenues, although the revenue gains will be tempered by large ad valorem severance tax credits because Weld County maintains one of the higher property tax rates among Colorado counties with oil and gas production.

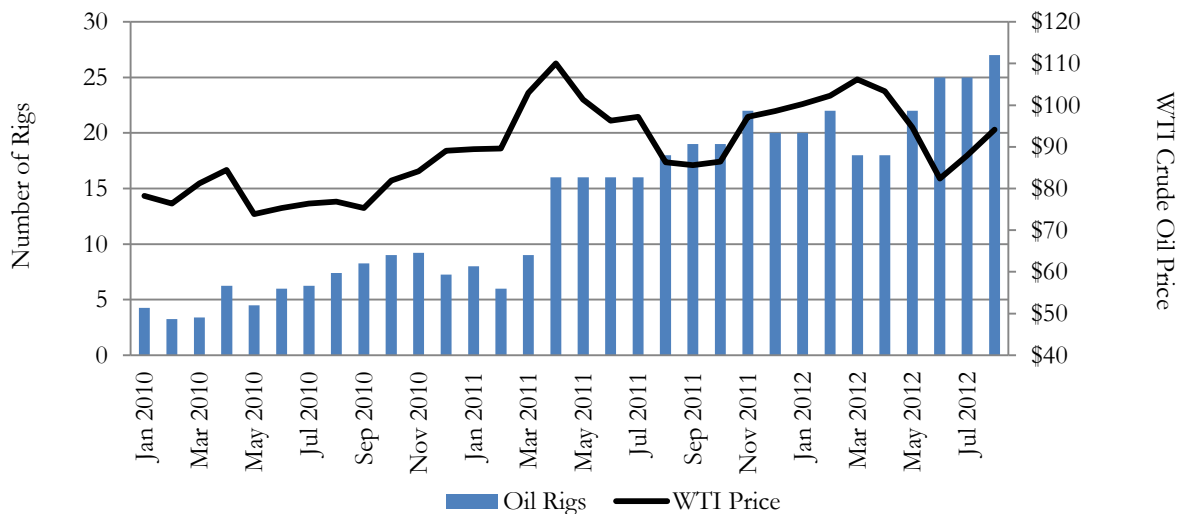


Figure 6. Active Colorado Natural Gas Rigs and Henry Hub Natural Gas Price



Sources: Baker Hughes, St. Louis Federal Reserve

Figure 7. Active Colorado Oil Rigs and WTI Crude Oil Price



Sources: Baker Hughes, St. Louis Federal Reserve

Coal production, which comprises a small percentage of overall severance tax revenue, is expected to grow slightly as producers find more markets for coal, such as from growing international demand. Also, increases in the coal tax rate will bolster coal severance tax revenue. The tax rate is indexed to producer prices under state statute. Severance tax revenue from coal production will grow to \$11.1 million in FY 2012-13 and \$11.6 million in FY 2013-14. However, coal severance tax



growth will remain muted as domestic consumption of coal has declined as energy producers continue to switch to natural gas in response to its lower price and changes in legislative and regulatory energy policies.

Federal Mineral Leasing Revenue

When federal lands are leased for mineral extraction, the federal government and the State of Colorado realize roughly half of the revenue from the production and leasing activity. This revenue is called Federal Mineral Leasing (FML) revenue. Generally, half of FML revenue comes from natural gas. The other main sources are oil, coal, and carbon dioxide.

Lower natural gas prices and the associated reduction in new drilling activity will cause FML revenue to decline roughly 4.5 percent in FY 2012-13. Although FML revenue is expected to decrease as a result of lower prices, the impact is much less dramatic than the fall in severance tax revenue. This is the case because FML revenue is not subject to the ad valorem tax credit that can exacerbate revenue fluctuations when prices are volatile year over year. Similar to severance tax revenues, the continued expansion of oil production, combined with a recovery in natural gas prices, will cause FML revenue to increase again in FY 2013-14 by \$10.4 million to \$167.9 million. FML revenue is from the federal government and is thus exempt from TABOR. Therefore, the amounts shown below are not reflected in the cash fund TABOR revenue forecast shown in Table 3.

Figure 8. Federal Mineral Leasing (FML) Payments

Federal Mineral Lease (FML) Payments				
Fiscal Year	Bonus Payments	Non-Bonus Payments	Total FML	% Change
FY 2011-12	\$2.49	\$162.45	\$164.94	10.3%
FY 2012-13	\$3.15	\$154.35	\$157.50	-4.5%
FY 2013-14	\$3.36	\$164.56	\$167.92	6.6%
FY 2014-15	\$3.74	\$183.09	\$186.83	11.3%

Dollars are in millions. FY 2011-12 figures reflect actual collections, and FY 2012-13 through FY 2014-15 are projections.

Other Cash Funds

The Colorado Department of Regulatory Agencies works to ensure consumer protection and marketplace integrity. The agency is primarily cash funded by both regulated entities and professionals. Examples of regulated entities include insurance companies and public utilities. Examples of professionals that contribute cash fund revenue to the department are real estate agents, chiropractors, and pharmacists. Cash fund revenue from the department is closely associated with economic and business activity. In line with expectations for the overall economy, cash fund revenue from the Department of Regulatory Agencies is expected to grow slowly over the forecast period. Collections are expected to total \$66.4 million in FY 2012-13 and \$67.9 million in FY 2013-14.



Insurance-related cash fund revenue includes all insurance premiums collected for major medical insurance, subsequent injury, and workers' compensation. Insurance-related cash funds will total \$25.8 million in FY 2012-13 and \$27.6 million in FY 2013-14.

The category of "Other Cash Funds" in Table 3 includes numerous cash funds subject to TABOR that are mainly funded from licenses, fines, and fees as well as interest earnings on various cash funds. This category decreased 6.7 percent in FY 2011-12. Some of this decline can be attributed to the implementation of SB 11-208, which merged the Division of Wildlife and the Division of Parks to form the Division of Parks and Wildlife within the Department of Natural Resources. The legislation also established the new division as an enterprise, making all its revenue exempt from TABOR pursuant to Article X, Section 20 of the Colorado Constitution. Revenue from the funds included in the "Other Cash Funds" category will increase in FY 2012-13 to \$478.4 million and will grow again in FY 2013-14 to \$496.9 million.

Table 3
Cash Fund Revenue Forecasts by Major Category
(Dollar amount in millions)

Category	Preliminary	September 2012 Estimate by Fiscal Year			FY 2011-12 to FY 2014-15 CAAGR*
	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	
Transportation-Related /A	\$1,112.2	\$1,116.4	\$1,132.0	\$1,147.8	
Change	2.7%	0.4%	1.4%	1.4%	1.1%
Limited Gaming Fund /B	\$95.6	\$98.5	\$101.4	\$104.5	
Change	-2.4%	3.0%	3.0%	3.0%	3.0%
Capital Construction - Interest	\$1.1	\$0.7	\$0.5	\$0.7	
Change	-62.8%	-36.0%	-23.4%	23.4%	-15.4%
Regulatory Agencies	\$64.9	\$66.4	\$67.9	\$69.5	
Change	-6.7%	2.3%	2.3%	2.3%	2.3%
Insurance-Related /C	\$22.6	\$25.8	\$27.6	\$28.4	
Change	-14.6%	14.3%	6.9%	2.9%	7.9%
Severance Tax	\$207.7	\$92.0	\$192.6	\$251.3	
Change	39.0%	-55.7%	109.5%	30.4%	6.6%
Medicaid Hospital Provider Fees /D	\$586.5	\$643.4	\$607.7	\$607.7	
Change	32.5%	9.7%	-5.5%	0.0%	1.2%
Other Miscellaneous Cash Funds	\$462.1	\$478.4	\$496.9	\$533.4	
Change	-6.7%	3.5%	3.9%	7.3%	4.9%
TOTAL CASH FUND REVENUE	\$2,552.8	\$2,521.6	\$2,626.8	\$2,743.2	
Change	7.8%	-1.2%	4.2%	4.4%	2.4%

* CAAGR: Compound Annual Average Growth Rate.

/A Revenue beginning in FY 2009-10 include the impact of SB 09-108 (FASTER).

/B Revenue excludes any impact from Amendment 50 as these revenues are exempt from TABOR. Exempted revenues are projected based on the formula outlined per HB 09-1272.

/C Pursuant to SB 09-037, beginning in FY 2010-11 the Workers' Compensation surcharge that is applicable for the Major Medical and Subsequent Injury cash fund will no longer be applied until the available balance in said fund falls below the unrestricted cash fund balance plus one year's worth of direct and indirect operating expenses for these programs.

/D Figure for FY2014-15 has not been forecast. Prediction of income for this category will be highly informed by action at the state level in combination with further guidance to be provided by the Centers for Medicare and Medicaid Services in the coming months.



The Taxpayer's Bill of Rights: Revenue Limit

The Taxpayer's Bill of Rights (TABOR) – Article X, Section 20 of the Colorado Constitution – limits the State's revenue growth to the sum of inflation plus population growth in the previous calendar year. Under the provisions of TABOR, revenue collected above the TABOR limit must be returned to taxpayers, unless voters decide the State can retain the revenue. In November 2005, voters approved Referendum C, which allows the State to retain all revenue through FY 2009-10, during a five-year TABOR "time out." Referendum C also set a new cap on revenue starting in FY 2010-11. Table 4 summarizes the forecasts of TABOR revenue, the TABOR revenue limit, and the revenue cap under Referendum C.

Beginning in FY 2010-11, the amount of revenue that the State may retain under Referendum C (line 9) is computed by multiplying the revenue limit between FY 2005-06 and FY 2009-10 associated with the highest TABOR revenue year (FY 2007-08) by the allowable TABOR growth rates (line 6) for each subsequent year. OSPB does not project that any refunds will occur during the forecast period (line 10). Revenue is projected to be about \$1 billion below the Referendum C cap through FY 2014-15.

TABOR requires that the population estimates used to determine the revenue limit be adjusted every decade to match the federal census. The 2010 federal census indicates that Colorado's population was overestimated during the 2000s decade. Thus, in order to account for this overestimate, the percent change in population (line 4 of Table 4) that will affect the FY 2011-12 revenue limit was lowered.

Table 4
TABOR Revenue & Referendum C Revenue Limit
(Dollar Amounts in Millions)

Line No.		Preliminary	September 2012 Estimate by Fiscal Year		
		FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15
	TABOR Revenues:				
1	General Fund /A <i>Percent Change from Prior Year</i>	\$7,712.9 9.3%	\$7,935.2 2.9%	\$8,126.7 2.4%	\$8,445.2 3.9%
2	Cash Funds <i>Percent Change from Prior Year</i>	\$2,556.3 8.0%	\$2,521.6 -1.4%	\$2,626.8 4.2%	\$2,743.2 4.4%
3	Total TABOR Revenues <i>Percent Change from Prior Year</i>	\$10,269.1 9.0%	\$10,456.9 1.8%	\$10,753.5 2.8%	\$11,188.4 4.0%
	Revenue Limit Calculation:				
4	Previous calendar year population growth	0.1%	1.4%	1.5%	1.4%
5	Previous calendar year inflation	1.9%	3.7%	2.2%	3.1%
6	Allowable TABOR Growth Rate	2.0%	5.1%	3.7%	4.5%
7	TABOR Limit	\$8,800.1	\$9,248.9	\$9,591.1	\$10,022.7
8	General Fund Exempt Revenue Under Ref. C /B	\$1,469.1	\$1,208.0	\$1,162.4	\$1,165.8
9	Revenue Cap Under Ref. C /C	\$10,871.5	\$11,426.0	\$11,848.7	\$12,381.9
10	<i>Amount Above/(Below) Limit</i>	<i>(\$602.4)</i>	<i>(\$969.1)</i>	<i>(\$1,095.2)</i>	<i>(\$1,193.5)</i>
11	TABOR Reserve Requirement	\$308.1	\$313.7	\$322.6	\$335.7

- /A** Amounts differ from the General Fund revenues reported in Table 3 (General Fund Revenues) as some double counting exists when cash funds are transferred to the General Fund (for instance, limited gaming revenues), and due to other accounting adjustments.
- /B** Under Referendum C, a "General Fund Exempt Account" is created in the General Fund. The account consists of money collected in excess of the TABOR limit in accordance with voter-approval of Referendum C.
- /C** The revenue limit is calculated by applying the "Allowable TABOR Growth Rate" to either "Total TABOR Revenues" or the "Revenue Cap Under Ref. C," whichever is smaller. Beginning in FY 2010-11, the revenue limit is based on the highest revenue total from FY 2005-06 to 2009-10 plus the "Allowable TABOR Growth Rate." FY 2007-08 was the highest revenue year during the Referendum C period.



The Economy: Current Conditions and Forecast

OSPB's assessment of the economy and its future path remain essentially unchanged from recent forecasts. Recent national data on jobs, business spending, exports, and manufacturing show that the economy has slowed from earlier in the year. The global economy is also slowing. Due to these trends and the persistent factors weighing on growth, OSPB expects the slowdown, though not significant, to continue into 2013. Colorado is enduring the same challenges as the nation. However, economic indicators continue to show that the state has been building a better economic foundation and is outperforming many other states. Tables 5 and 6 following page 53 provide actual and forecast figures on key Colorado and national economic indicators from 2008 through 2014.

Several uncertainties and risks remain which make gauging the future performance of the economy especially challenging. The ongoing European economic and financial distress as well as the nation's possible impending federal tax increases and spending cuts are downside risks. Because Colorado has a large concentration of aerospace and defense workers, the state may be impacted more than many other states from federal defense cuts. Higher oil and food prices, which are facing upward pressure due to tensions in the Middle East and the nationwide drought, are also risks.

There is also the potential that the economy will perform better than forecast. A more satisfactory resolution of Europe's challenges and an agreement on federal fiscal issues will reduce uncertainty and help bolster the economy. Further, the Federal Reserve's recent significant shift in policy could boost growth. The policy includes a new open-ended asset buying program and guidance that monetary policy will remain accommodative even after the recovery strengthens. These policies could bolster the economy through raising expectations for growth, thus spurring more economic activity and money circulating in the economy. Also, improvement in the housing market, which traditionally helps economies recover from downturns, is a positive trend that could boost growth more than expected.

Overall Economic Conditions

Though the economy continues to grow as individuals and businesses strive to rebuild and improve their livelihoods, activity remains only modest. The economy has yet to overcome the legacies of the dramatic downturn and financial crisis that began in 2008. The restructuring process from the dislocations of the credit and housing boom and bust will continue to take time.

A full recovery continues to be hindered by several factors, such as household balance sheet repair, labor market restructuring, and higher levels of uncertainty regarding future economic activity. Many businesses and households are holding back on spending, investing, and hiring decisions. The rate at which money is being exchanged in the economy – called the “velocity” of money – which helps generate income, is at a 50-year low.

A weakened global economy – The global economy is highly connected, and conditions in other parts of world impact the nation and state. Many of the world's largest economies continue to be weak. A recent index measuring manufacturing activity indicates that 80 percent of the world's manufacturing is in contraction.



In a particularly ominous sign, economies in the Euro Area and Asia continue to slow. These two regions represent a significant portion of the world's overall economic output. In addition, although recent signs point to some improvement in Brazil and the United Kingdom – the sixth and seventh largest economies in the world, respectively – they remain below their trend levels of growth.

These trends can be seen in Figure 9, which provides composite leading indicators published by the Organization for Economic Co-Operation and Development (OECD) for many of the world's economies. These indicators were created to anticipate the economic activity of an economy about six months into the future. The indicators show that the loss of momentum is likely to persist in the coming quarters in many major economies.

Figure 9. OECD Composite of Leading Indicators for Major Global Economies, 2000 through August 2012*



*An index above 100 indicates an economy is growing above its long term trend and an index below 100 indicates economic activity is below long term trend growth

Source: OECD



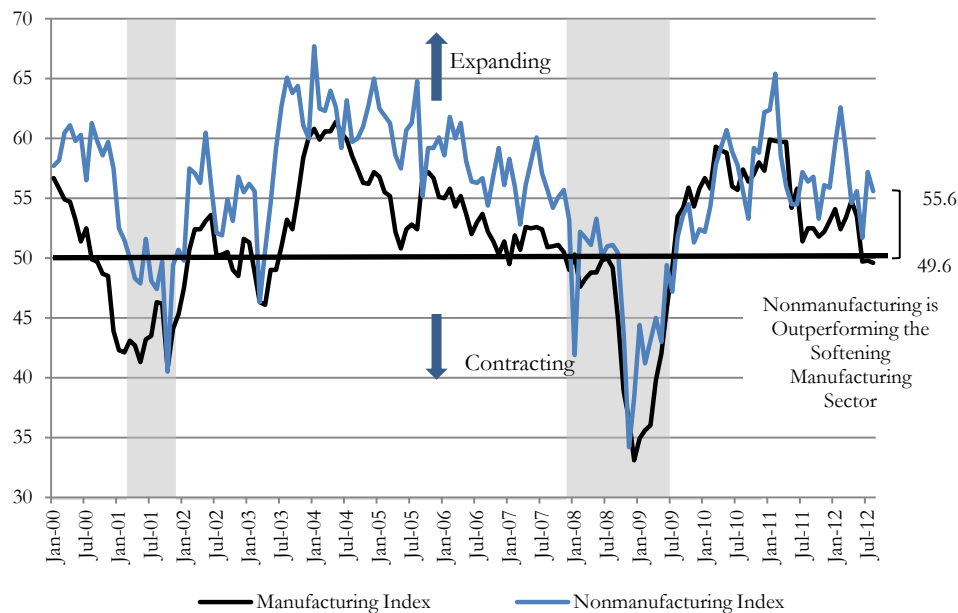
Manufacturing conditions have softened, while most other sectors of the economy are holding up amongst difficult conditions – Figure 10 shows performance of the manufacturing and nonmanufacturing sectors of the national economy from 2000 through August of 2012 as measured by the Institute for Supply Management (ISM) indices. A strong rebound in manufacturing over the past few years has helped boost overall economic activity for the nation. This is the case because manufacturing generates a significant amount of economic activity in other sectors of the economy. It spurs the creation of jobs and spending across the economy because the entire manufacturing process is highly complex with many inputs. In addition, the manufacturing industry is highly innovative, which leads to income and economic growth as the industry continually becomes more productive and creates products that the market needs and wants.

Unfortunately, manufacturing has been slowing over the past several months. The ISM Manufacturing Purchasing Managers Index (PMI), based on a survey of businesses in the production of goods sector, was 49.6 in August, the third month in a row below 50, which indicates contraction, as shown in Figure 10. One of the industries reporting contraction was computer and electronic product manufacturing, Colorado's largest manufacturing industry. A representative from the industry stated in the national ISM August survey that, "business is slow right now. Companies seem to be holding onto their money." It is likely that the manufacturing sector will continue to be more sluggish over the coming months due to the weak global economy. Further, a combination of rising inventories of manufacturers and slowing in new orders will result in less manufacturing activity.

As shown in Figure 10, the ISM Non-manufacturing Businesses Activity Index was 55.6 in August 2008, down slightly from July. This is a positive sign for Colorado's economy as the state has a more services-intensive economy than the nation as a whole. Colorado is a regional hub for professional, scientific, and technical services, such as engineering, accounting, legal services, and consulting. This sector continued to report growth at the national level in the August survey. Despite reflecting overall growth, the survey in general continued to reflect uncertainty about business conditions and the economy.



Figure 10. Comparison of Change in ISM Manufacturing and Nonmanufacturing Indices through August 2012



Source: Institute for Supply Management

Colorado business conditions continue to outperform the nation, but the state is not immune from the uncertainty facing businesses across the nation – Since the economic downturn, Colorado has been building a stronger economic foundation, which has resulted in better economic growth than many other states. This process has been aided by Colorado’s entrepreneurial and talented population and its culture of collaboration and innovation. Further, Colorado has a solid presence of industries that trade their goods and services outside of the state and nation. This subjects Colorado companies to more competition that requires constant improvement and innovation in business processes and products. Such activity helps the economy grow. It also brings in new income to the state that can be utilized for increased investment, hiring, and spending.

Two surveys of businesses in the state indicate that businesses still face headwinds and uncertainty. The Goss Institute for Economic Research’s Business Conditions Index for Colorado, based on a survey of supply managers in the state, increased to 59.0 in August from 49.6 in July. The July value represented the first time since September 2009 that the Colorado index slipped below 50, which reflects expectations of a contracting economy during the next three to six months. Similarly, the University of Colorado Leeds Business Confidence Index (LBCI), an index measuring the confidence of Colorado business leaders, reported that expectations weakened for the third quarter of 2012. The third quarter report indicated that many businesses remain cautious about the future, especially regarding the national economy.

New business creation in Colorado continues to rebound – New businesses generally create more jobs than existing firms. Thus, trends in business startup activity are important to monitor to help gauge job growth. Based on Quarterly Census of Employment and Wages data from the Colorado



Department of Labor and Employment, the number of business startups with employees fell substantially during the recession. However, business startup activity improved beginning in 2010, and the trend has continued into the first quarter of 2012, the latest data available. These trends are illustrated in Figure 11 below. The improvement in 2010 coincided with the pickup in job growth in Colorado.

Figure 11. New Businesses with Employees, 2004 through the First Quarter of 2012



Source: OSPB calculations based on Colorado Department of Labor and Employment data, seasonally adjusted

Despite the recent growth trend, start-up activity remains well below its pre-recession peak. This indicates that entrepreneurs are having more difficulty finding opportunities to begin and sustain new business ventures as the economy rebuilds and restructures. Entrepreneurs generally continue to have lower expectations and uncertainty about the future. This, coupled with less financing available, is hindering successful new business creation and thus more robust job growth.

Labor Market Conditions and Trends

The labor market is slowly improving but continues to face many challenges as businesses remain apprehensive and uncertain about future economic conditions, federal fiscal policy, the European sovereign debt crisis, and an overall global slowdown. Further, the job market appears to be facing some structural frictions as it is taking time to match available jobs with those individuals seeking employment. Continued levels of high unemployment indicate the economy is still rebuilding from major disruptions and dislocations during the recession.

Additionally, in the private sector, firms are allocating more resources to equipment and software than labor. Historically, private business investment in equipment and software has moved in tandem with private sector employment. This divergence in spending demonstrates firms' efforts to keep operations lean and increase the productivity of existing workers.



Job openings and hiring continue on an upward trajectory, though growth is modest and challenges remain – The U.S. job market softened in August when 96,000 jobs were added, less than expected. Manufacturing shed 15,000 jobs, government lost 7,000, and temporary employment eliminated positions, which can be a bellwether for overall job trends. Employment rose in restaurants, professional and technical services, and health care. Construction gained 1,000 jobs with the continuing improvement in housing construction.

Colorado job growth is outpacing the nation – Based on data from the U.S. Bureau of Labor Statistics and OSPB's estimates of forthcoming revisions to jobs data that are currently not published,¹ Colorado gained about 20,000 nonfarm jobs so far this year through July. The professional, scientific and technical services, and finance and insurance sectors contributed to about half of this gain. Colorado is a regional hub for these sectors, which helps contribute to economic growth.

Due to the large economic benefits that the manufacturing sector brings to the state, continued job growth through July in this sector is welcome. Another positive is that the construction sector is adding jobs this year after the sector shed a substantial amount of its workers when housing and other construction collapsed. Finally, the mining sector continues to lead the state in the percentage increase in job growth, although the sector represents only a small portion of the state's employment base. Notable sectors that have had very weak growth or have shed jobs this year include transportation and utilities, real estate, information, such as publishing industries and telecommunications, and the public sector.

OSPB's forecast for Colorado nonfarm payroll jobs remains the same as the previous forecast. Payroll jobs will increase 1.7 percent in 2012, but slow to 1.0 percent in 2013 as the current heightened uncertainty and lower expectations for future economic conditions takes their toll on hiring; nationally, job growth will be slightly slower.

Unemployment

Although job growth has been occurring for the state and the nation since the beginning of 2010, growth has not been strong enough to employ the substantial amount of individuals who lost their jobs during the recession. Unemployment thus remains elevated.

There are several factors contributing to the higher levels of unemployment which are discussed in further detail in the following sections. The U.S. Bureau of Labor Statistics (BLS) in August reported a national unemployment rate of 8.1 percent, down from 8.3 percent in July. The decrease was mostly due to workers leaving the labor force which resulted in a lower labor force participation rate of 63.5 percent – the lowest level since 1981. The male participation rate nationally fell to 69.9 percent, its lowest level since 1948 when records began.

¹ The jobs figures will be benchmarked based on Quarterly Census of Employment and Wage data to more accurately reflect the number of jobs in the state than what was estimated based on a survey of employers.



Colorado's unemployment rate inched up to 8.3 percent in July, the same as the nation's that month. This tenth of a point increase was due to gains in individuals entering the labor force to seek work without a commensurate increase in job growth.

Unemployment rates of 8.0 percent and 7.8 percent are forecast for Colorado in 2012 and 2013, respectively. The national unemployment rate will be 8.3 percent in 2012 and 8.2 percent in 2013.

A broader measure of unemployment also remains high — The underemployment rate, or the underutilization rate, is an alternative measure of unemployment to capture those who are underemployed (working less than full-time when a full-time position is preferred) and discouraged workers who would like to work but have temporarily stopped their search. Colorado's underutilization rate averaged 14.8 percent from the second half of 2011 through the first half of 2012, below its peak of 15.7 percent in 2010 and the first part of 2011. The national underutilization rate in August was 14.7 percent.

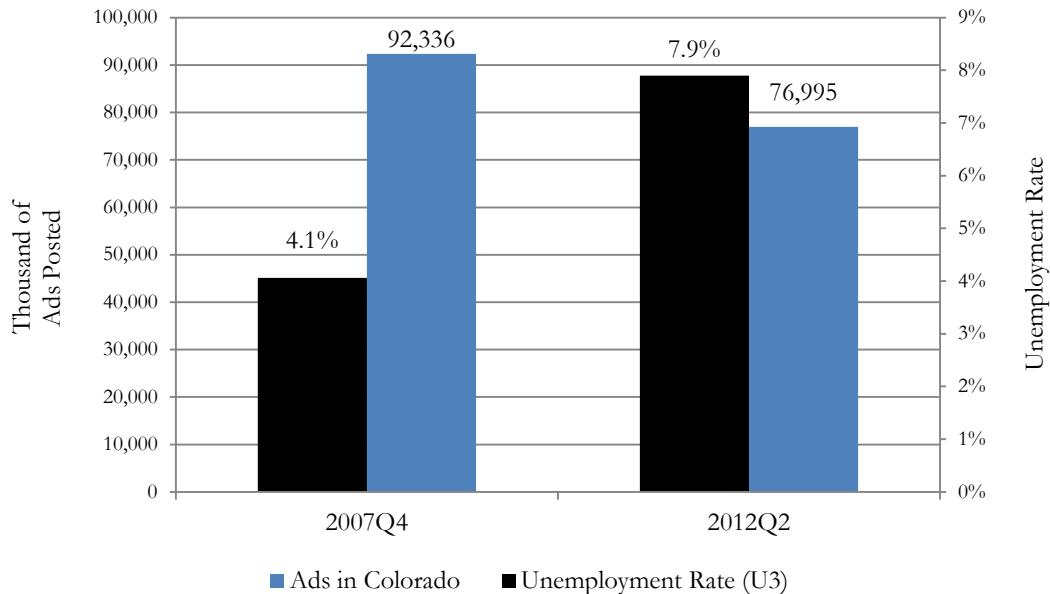
Unemployment remains high despite sustained increases in job openings, providing evidence that the job market is less efficient than in other periods at matching job seekers with employers — The growth in job openings, as measured in Colorado by job advertisements posted online and nationally by job openings data from the U.S. Bureau of Labor Statistics' Job Openings and Labor Turnover Survey (JOLTS), is not being matched by job growth and a decrease in unemployment. This is likely due to several factors.

There appear to be structural issues in the job market as employers and job seekers are less successful in meeting each other's needs compared with most previous periods. There is some evidence that there is a mismatch between the skill set and/or the geographic location of job seekers and the characteristics of job openings. A recent study from the Federal Reserve has indicated that up to one-third of the higher level of unemployment can be attributed to a mismatch between the skills of those seeking work and those needed by employers needing more workers. There is also some evidence of a mismatch between the wage expectations of individuals seeking work and the wages offered by employers.

The above dynamics are depicted in Figure 12 which shows the number of online advertisements by Colorado employers and the state unemployment rate at the end of 2007 as well as in the second quarter of 2012. The number of second quarter advertisements posted online in 2012 is 17 percent lower than the number of advertisements posted online before the recession at the end of 2007. At the same time, the 2012 unemployment rate is almost twice as high.



Figure 12. The Number of Online Advertisements and the Unemployment Rate



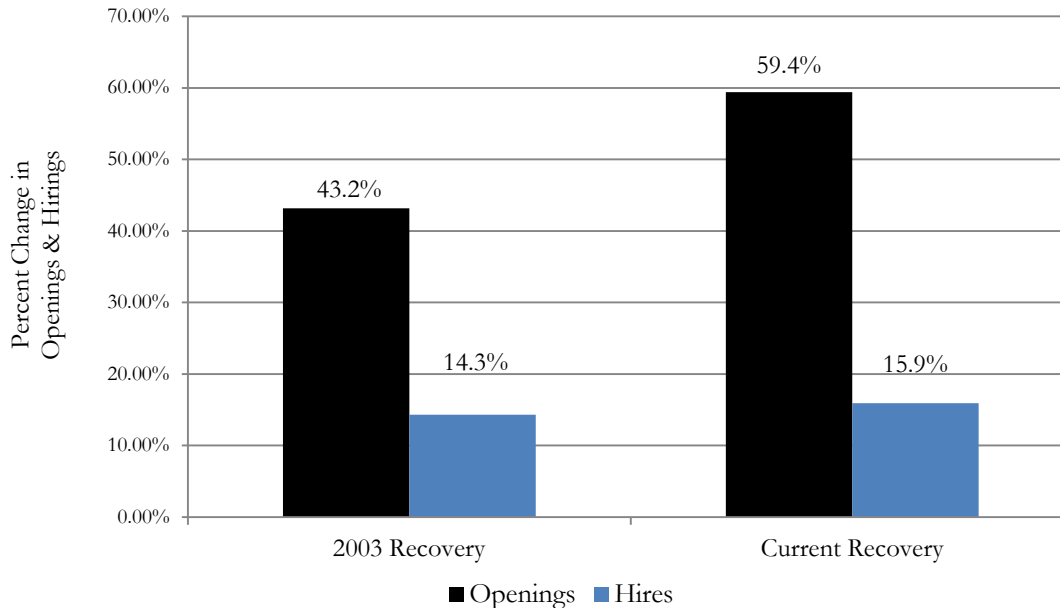
Source: Conference Board's Help Wanted On-Line and U.S. Bureau of Labor Statistics

Figure 13 provides evidence at the national level of the matching issue in the job market. The figure shows the relationship between growth in job openings and hiring at the national level during the current recovery period and the recovery from the early 2000s recession. This data shows that job openings have increased at a faster pace in the current recovery than the recovery that began in 2003. At the same time, hiring has increased at only a slightly faster pace despite the much larger growth in openings. Thus, there is a larger gap between growth in openings and hires.

As shown in Figure 13, this discrepancy between openings and hires is larger than the recovery from the early 2000s recession when job growth was also slow to rebound. Once the process of matching unemployed and underemployed workers begins to speed up and experience more success, it will help the economy recover by enabling more employers to expand and providing individuals with higher incomes to buy goods and services. This will generate more positive feedback mechanisms and boost overall economic activity.



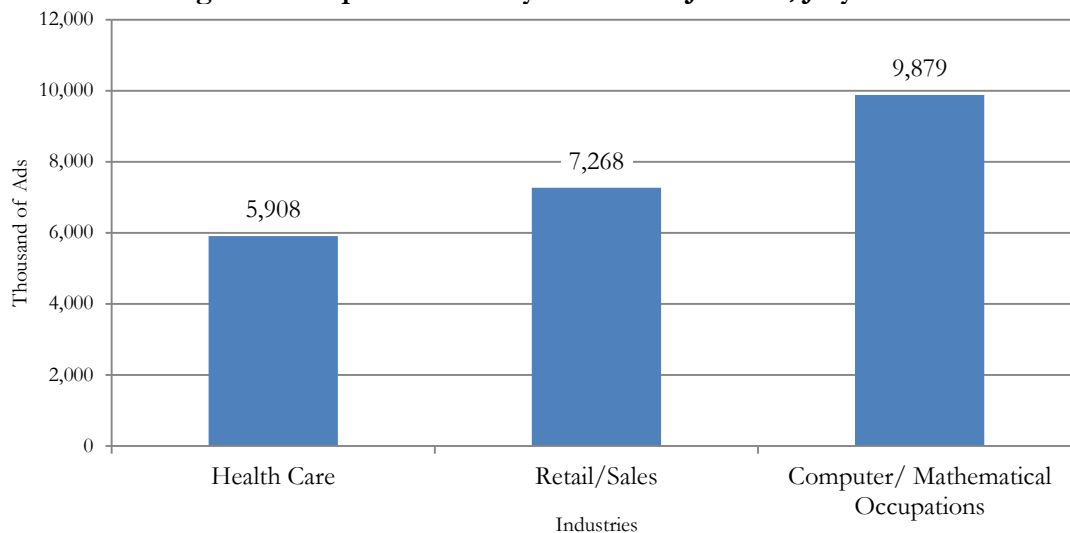
Figure 13. Percent Change in Total Private Hires and Openings



Source: U.S. Bureau of Labor Statistics , Seasonally Adjusted

Industries with the largest demand for workers are led by computer and mathematical operations – Figure 14 below shows the industries that had the largest portion of advertisements posted online in Colorado in August. Health care, computer and mathematical occupations, and retail and sales currently are posting the largest amount of job openings online.

Figure 14: Top Industries by Volume of Job Ads, July 2012



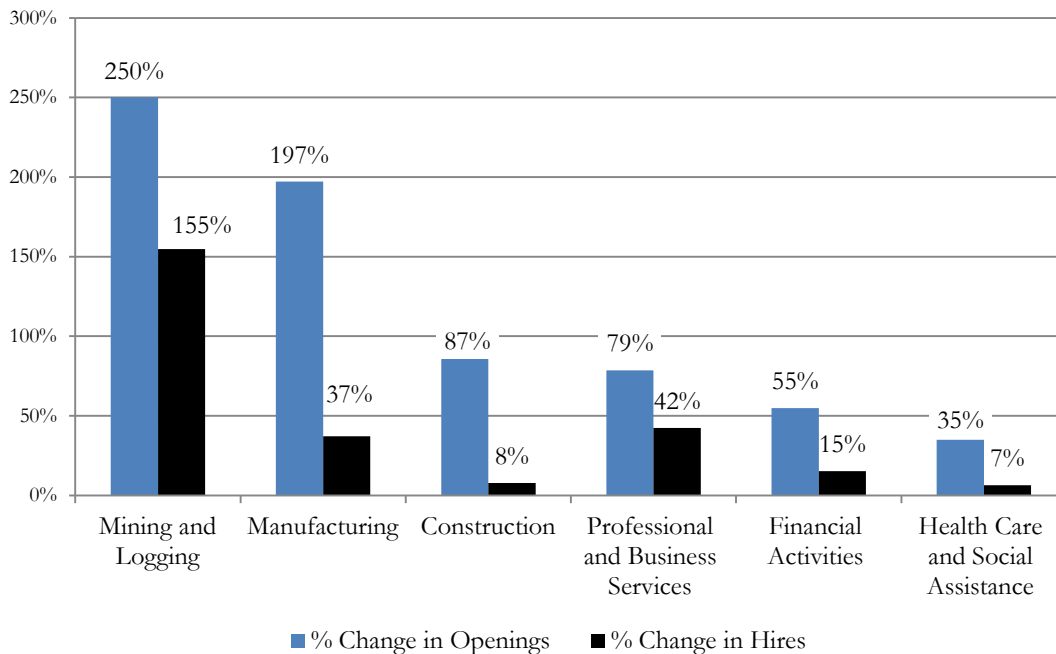
Source: Conference Board's Help Wanted On-Line



According to the U.S. Bureau of Labor Statistics, the most growth in job openings nationally since the end of the recession have been in mining and manufacturing. These industries have seen the largest rebound and have helped propel the economic recovery. However, professional and business services, health care and social assistance, and retail sales also have experienced a relatively large increase in job openings.

Figure 15 shows the percent change in job openings compared with hires in select industries since the end of the recession through the second quarter of 2012. The industries with the largest gaps between openings and hires are presumed to have the most difficulty finding workers. One notable gap is in construction. As home construction has picked up, finding skilled construction workers is increasingly difficult likely in part because many former workers have moved into fields such as maintenance work or remodeling.

Figure 15. Openings and Hires during 2008 Recovery Period



Source: U.S. Bureau of Labor Statistics

Both nationally and in Colorado, the relatively high number of openings that are not currently being filled are in industries requiring special skills or that cannot easily be automated, such as health care, computer and mathematical occupations, professional and business services, and manufacturing. This provides additional evidence that perhaps there are not enough workers currently available with the requisite skills to work in these industries.

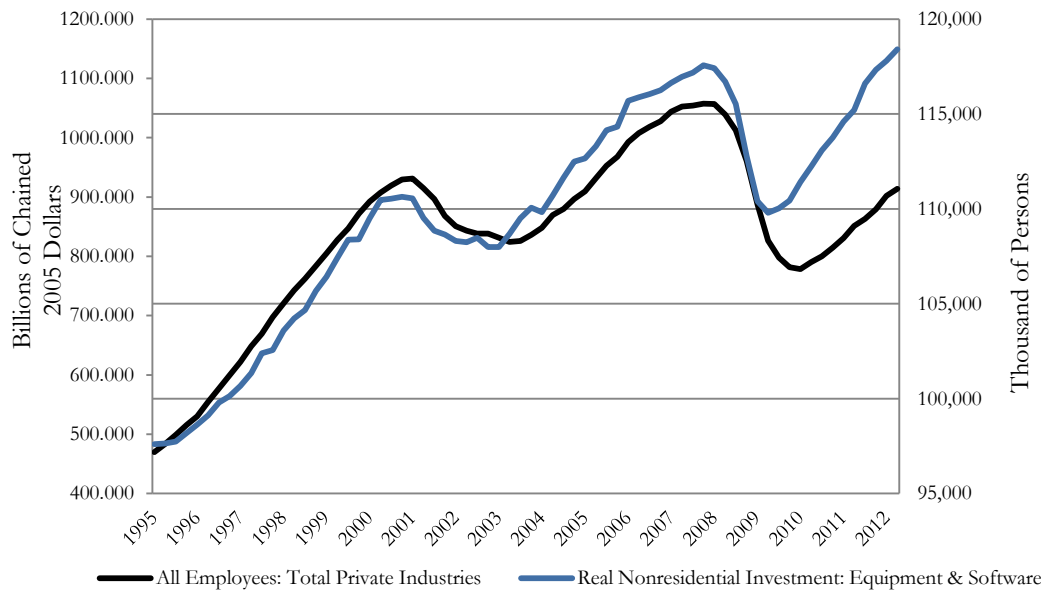
Colorado appears to have less of a job market matching issue than some other areas of the United States, likely attributable in part to the fact that the state has a large concentration of educated workers. This is likely one reason Colorado's economy is outperforming the nation. According to a recent Brookings



Institute study, metropolitan areas with lower education gaps, measured as the difference between the average years of education required by jobs with openings and the average years of education in an area, have lower overall unemployment rates. In the study, the Denver, Aurora, and Broomfield area had a gap of four percentage point gap while Colorado Springs had a two percentage point gap. Both were lower than the national average of five percentage points.

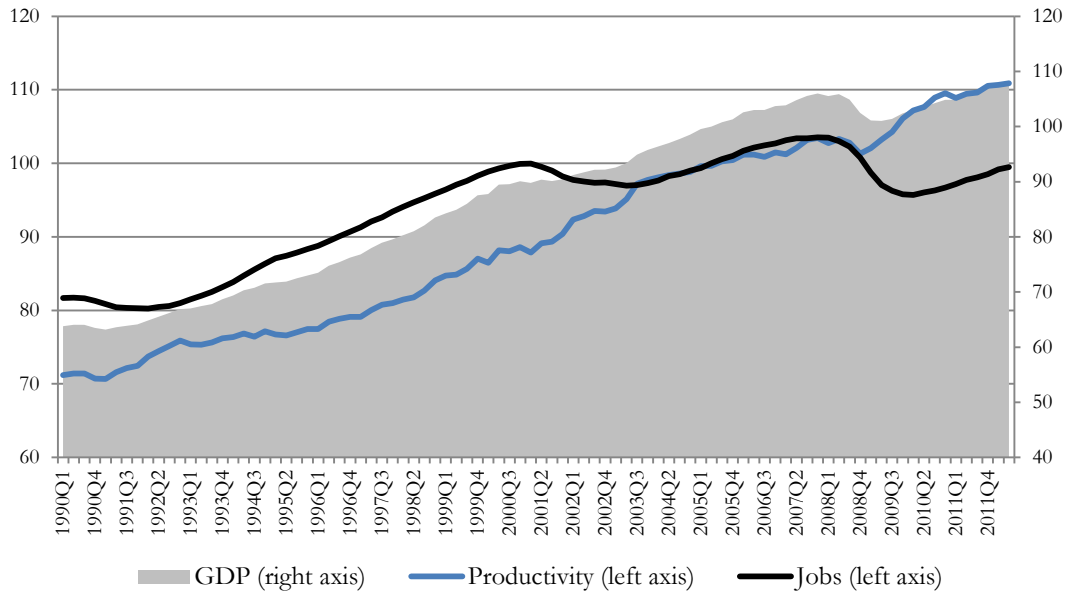
Businesses have been spending more on equipment and software than on labor during the current expansion – Business capital spending and hiring has historically trended closely together. However, recent national data suggests there has been a change in the relationship between business investment in equipment and software and private sector employment as shown in Figure 16.

Figure 16. Private Business Investment in Equipment/Software and Private Sector Employment



Source: Federal Reserve Bank of St. Louis, Real Nonresidential Investment: Equipment & Software, Billions of Chained 2005 Dollars and All Employees: Total Private Industries, Thousands of Persons, Quarterly, Seasonally Adjusted

Firms typically reduce employees and decrease investment in equipment and software during recessionary periods and then increase investment and hire more employees during periods of expansion. However, as illustrated above, in the most recent recovery as firms moved to keep operations lean, they have not hired at the same rate as past recoveries. Many firms have increased labor productivity through automation, thus replacing workers with capital equipment. This dynamic of increased output with fewer workers is demonstrated by Figure 17. As output has returned to pre-recession levels, there is not the corresponding growth in employment as workers with jobs have become more productive. Over time, a more productive workforce will lead to stronger economic growth and thus more jobs.

**Figure 17. Growth in Productivity, Jobs, and GDP, Indexed to 2005**

Source: Federal Reserve Bank of St. Louis, All Employees: Total nonfarm, Thousands of Persons, Quarterly, Seasonally Adjusted and Gross Domestic Product, 1 Decimal (GDP), Index: 2005=100, Quarterly

The trend of increasing automation has profound implications for individuals with skills that are no longer needed by the job market and is contributing to the current high unemployment rate. Unfortunately, it may take a long period of time for the economy to generate new opportunities for the large number of dislocated workers due to this trend. Further, many workers will have to retrain to be qualified for many of the new jobs being created.

Business Investment

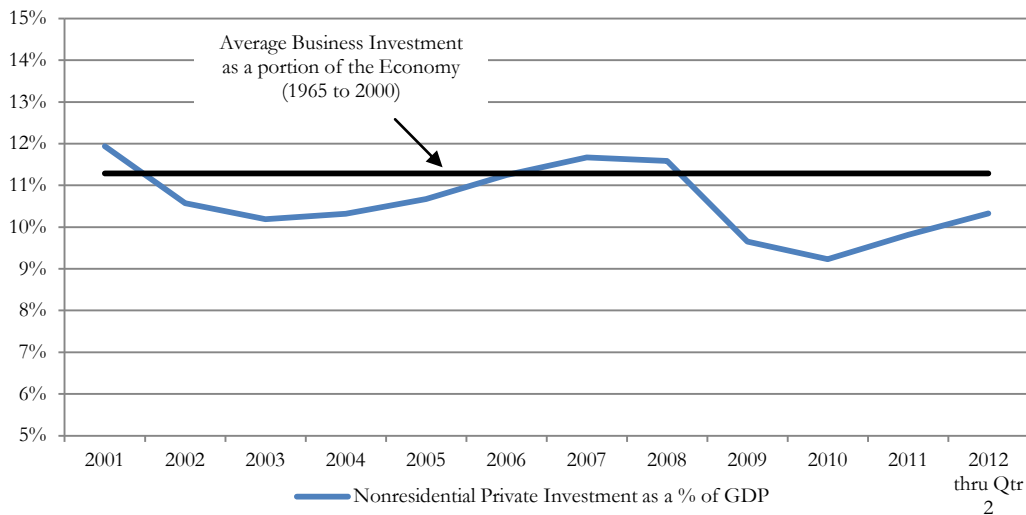
Private business investment is growing but still remains relatively low as measured by its portion of total economic activity – Private investment, a driver of economic growth both in the near and longer term, is used for the production of goods and services. Non-residential investment including investment in equipment and software and structures improves business practices and raises productivity. This generally leads to more income and profits that can then be used to sustain spending and investment which helps maintain economic growth.

Spending on nonresidential structures and investment in equipment and software is making gains as firms maintain and modernize technology and equipment and build new structures to expand operations. However, investment as a share of GDP is still low. The private sector continues to have elevated levels of uncertainty and lower expectations about the future, thus private investment will remain sluggish as business are less confident their investments will generate a sufficient return. Thus, with continued modest investment activity, the economy will likely continue to maintain lower levels of growth.



Figure 18 shows the share of private investment of Gross Domestic Product (GDP) from 2000 through the first half of 2012. Through the first half of 2012, private business investment comprised 10.3 percent of GDP. However, from 1965 through 2000, private investment as a percentage of GDP averaged 11.3 percent annually. As shown, business investment has made up a smaller share of overall economic activity than this level throughout most of the 2000s.

Figure 18. Gross Domestic Private Business Investment (excluding residential investment) as a Percent of GDP



Source: Bureau of Economic Analysis, U.S. Department of Commerce, (Billions of dollars), Seasonally adjusted at annual rates

New orders for manufactured durable goods increases – The U.S. Commerce Department reported that new orders for manufactured durable nondefense capital goods orders excluding aircraft, an indicator of business spending, decreased in June and July as illustrated in Figure 19. A representative from the machinery manufacturing industry noted in the most recent Institute for Supply Management survey of supply managers that there are indications of a continued slowdown in demand for capital equipment. Slower growth in new orders suggests sluggish output in the coming months as businesses spend less on investment and capital.



Figure 19. Manufacturers' New Orders: Nondefense Capital Goods Excluding Aircraft



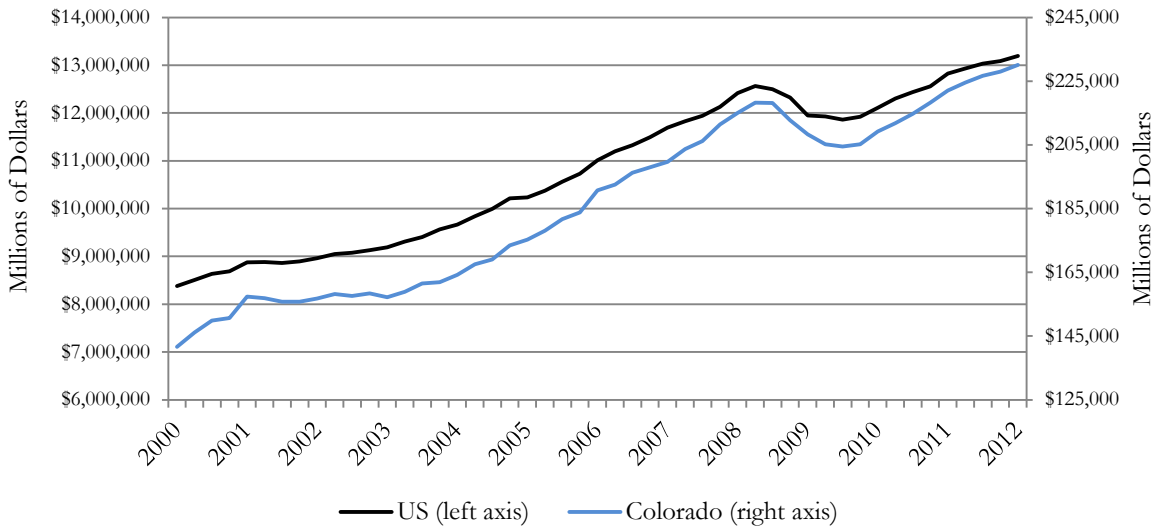
Source: Federal Reserve Bank of St. Louis, Manufacturers' New Orders: Nondefense Capital Goods Excluding Aircraft, Millions of Dollars, Monthly, Seasonally Adjusted

Household Income

Household income continues to grow, though at a slowing rate – As illustrated in Figure 20, after declining substantially during the recession, total personal income in both Colorado and the nation has been growing since the last quarter of 2009. The rate of growth has slowed since the first quarter of 2011. Slow income growth is an indicator of the sluggish recovery and will likely act as a continued headwind to the economy.



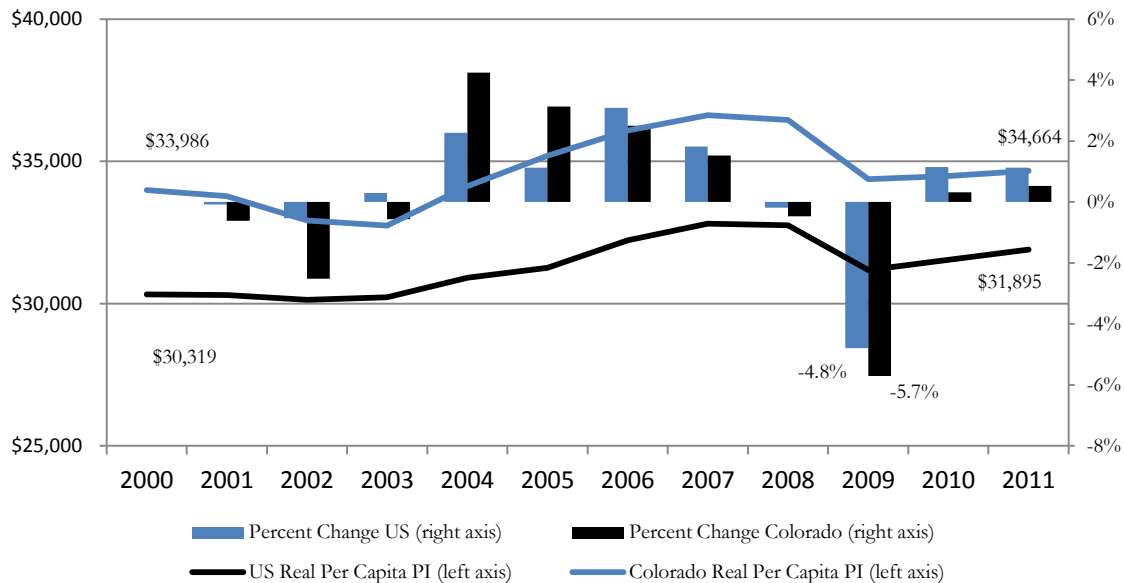
Figure 20. Total Personal Income 2000-2012, US and Colorado



Source: U.S. Bureau of Economic Analysis

Real income growth per capita has been essentially flat – While data show that aggregate personal income is increasing, both Colorado and the nation have experienced minimal real, or inflation-adjusted, personal income growth since the recession. Real per capita income in Colorado and for the nation is only slightly above 2000's level, meaning that purchasing power has not materially increased. The state's personal income data has reflected larger declines during the recession and smaller increases through the current recovery than the nation as a whole.

Figure 21. Real Per Capita Income and Percent Change 2000-2011, U.S. and Colorado

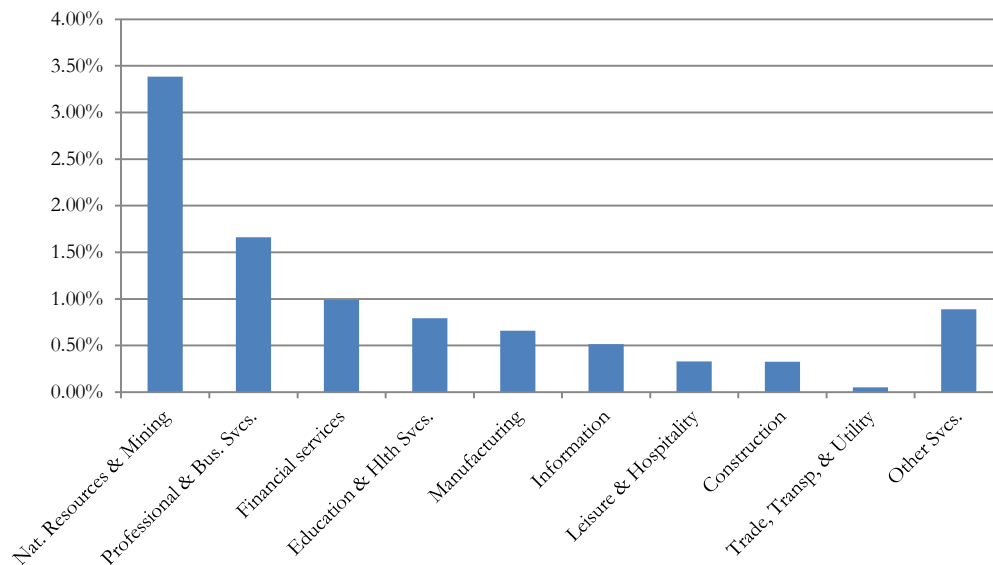


Source: U.S. Bureau of Economic Analysis and U.S. Bureau of Labor Statistics



Wage growth has varied by industry in Colorado – The relatively soft labor market has been accompanied by an environment of slow wage growth. Since 2001, only two major industries have seen compound average annual growth rates in real weekly wages of 1.5 percent or greater. These are the natural resources and mining industry and professional and business services. Figure 22 below shows the compound average annual growth rate in real weekly wages for major sectors in the Colorado economy. The average of the compound annual growth of real wages for all industries was less than one percent and was negative if the natural resources and mining sector is excluded. The fastest growing employment sectors between 2010 and 2011, aside from the natural resource and mining sector, were education and health services followed closely by leisure and hospitality.

Figure 22. Compound Average Annual Growth Rates in Real Weekly Wages, Colorado 2001-2011



Source: U.S. Bureau of Labor Statistics Quarterly Census of Employment and Wages

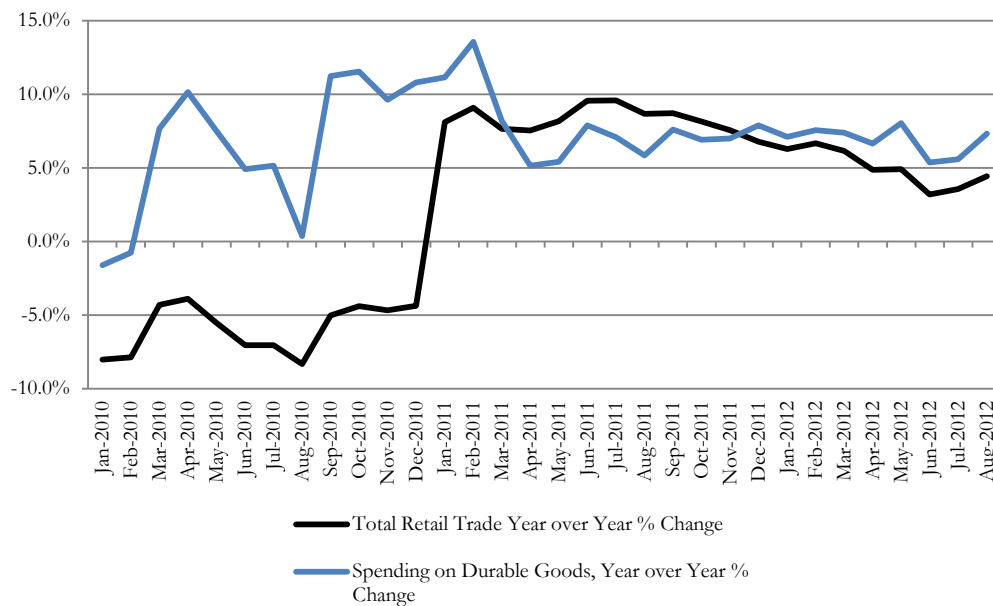
Personal income for the nation will grow modestly at a rate of 3.9 percent in 2012. The growth rate will slow to 3.6 percent in 2013 as economic headwinds help keep wages and employment relatively flat. Personal income will grow slightly more in Colorado at a rate of 4.3 percent in 2012 and 4.0 percent in 2013.



Consumer Spending

Consumer spending at the national level slowed for much of the spring and early summer but has picked up in recent months – Household spending accelerated in July and August after several sluggish months. Spending on durable goods, such as vehicles, electronics, and appliances, has shown better performance. This has likely been supported by the continued extremely low interest rates and a pickup in home buying. Spending on durable goods can act as a leading indicator of broader economic activity because it indicates consumers' willingness to make purchases of higher value that can be postponed more than other types of purchases in times of household belt tightening. Figure 23 below illustrates year over year growth in durable goods and all retail trade from 2010 through August of 2012.

Figure 23. National Total Retail Trade and Durable Goods Spending, Year-over-Year Percent Change

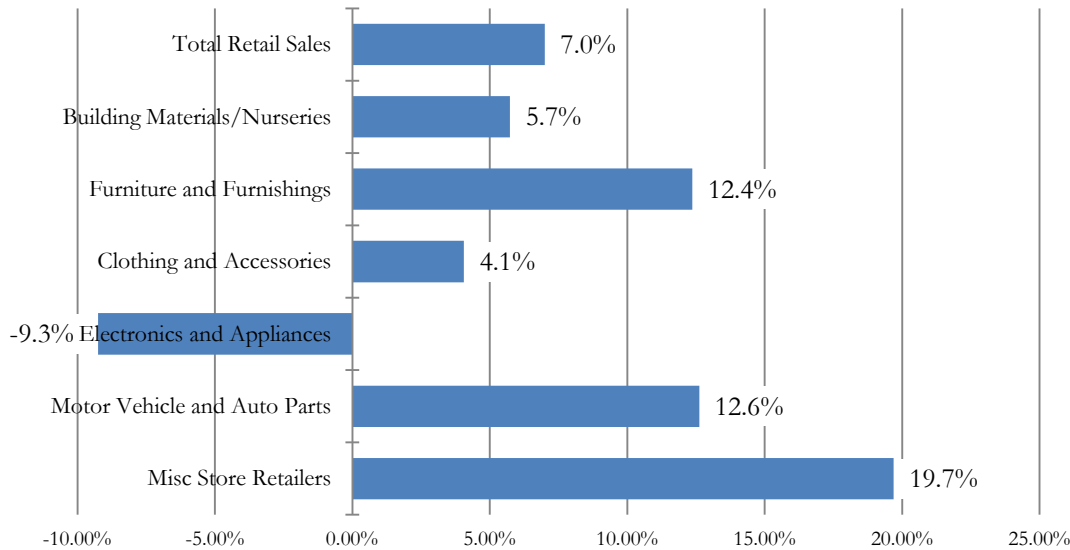


Source: U.S. Census Bureau

Retail sales growth in Colorado has continued to be surprisingly robust through the first six months of 2012 – Retail trade sales in Colorado have been stronger than the nation, with spending growth distributed amongst most types of items. Figure 24 shows the change in state retail sales for the first half of 2012 compared with a year ago for select categories of retail trade sales as well as total retail trade. Notably, spending on building materials and furniture grew more in 2012 than the same period in 2011, likely as a result of increased housing activity. Spending on automobiles continued to grow at a strong pace in the first half of 2012. The only category of durable goods that declined was the sales of electronics and appliances.



Figure 24. Colorado Percent Change in First Half of 2012 from the Same Period in 2011, Total Spending and Select Categories



Source: Colorado Department of Revenue

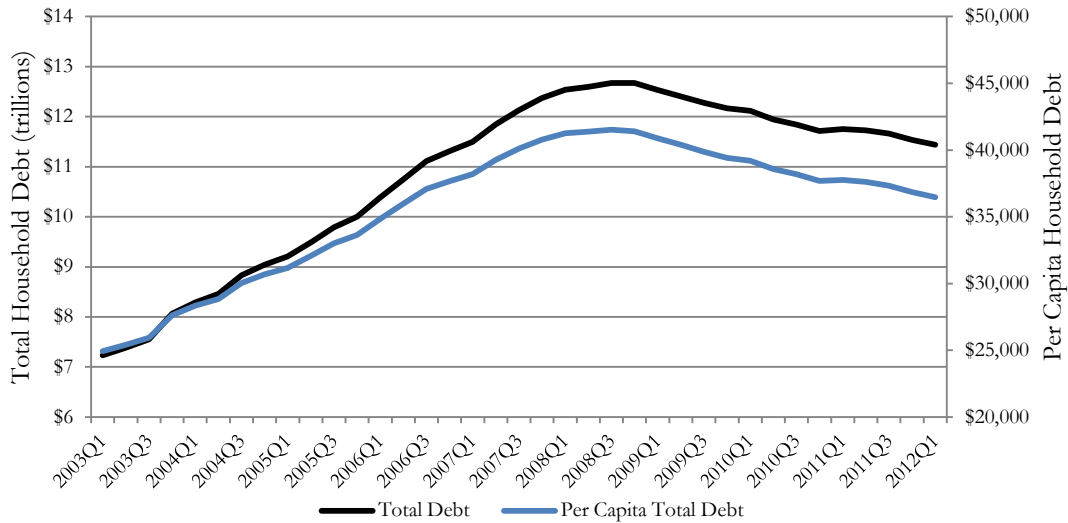
Retail trade for the nation will finish 2012 having grown 5.4 percent but will grow just 3.7 percent in 2013. Colorado's retail trade will grow at a similar rate of 6.1 percent in 2012 and will slow to a 3.9 percent increase in 2013.

Household Debt

Household debt continues a downward trend but remains elevated – In the first quarter of 2012, American households continued reducing debt and repairing their balance sheets. The debt reduction process will remain a drag on economic activity as households dedicate money to paying down debt that could be used for other purposes. The per capita debt level of \$36,477 in the first quarter of 2012 was about the same level as it was in mid 2006. However, even with continued household debt reduction, both total household debt and per capita debt remain well above historical levels. Figure 25 below illustrates the downward trend of total and per capita debt for the nation.



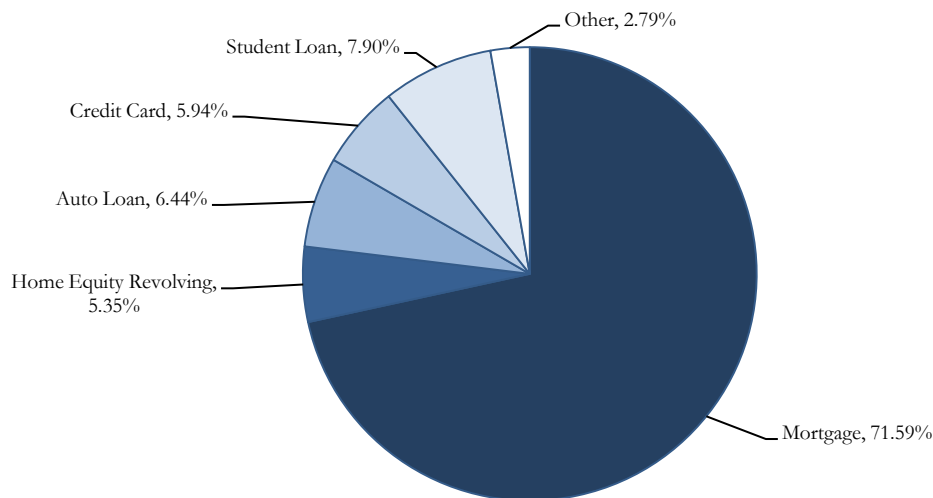
Figure 25. Total Household Debt and Per Capita Debt: 2003-2012



Sources: Federal Reserve Bank of New York Consumer Credit Panel, US Census Bureau

The composition of household debt is changing – Consistent with the pattern seen in the wake of the economic downturn, households continue to reduce debt in uneven ways. As shown in Figure 26, housing-related debt (mortgage loans and home equity revolving lines of credit) represents over three-quarters of overall household debt. This is a smaller share than at the end of 2011 when housing-related debt accounted for 83.4 percent of household debt.

Figure 26. Composition of Household Debt: First Quarter 2012

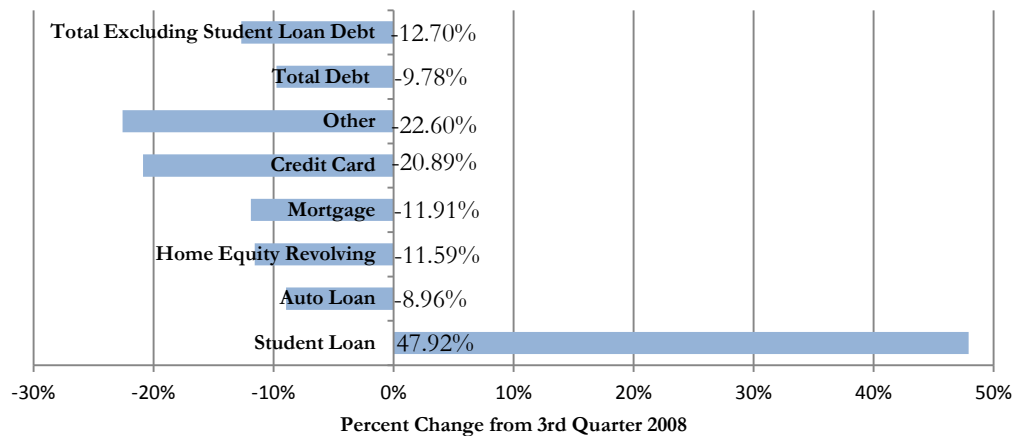


Source: Federal Reserve Bank of New York Consumer Credit Panel



A recent Federal Reserve Board working paper suggests that the decline in housing-related debt is largely due to a combination of continued defaults and low levels of mortgage originations rather than from consumers paying down or retiring housing-related debt. This finding is further supported by a study by the Federal Reserve Bank of Kansas City which found delinquency rate on mortgages was higher than for any other type of debt in the first quarter of 2012. Figure 27 shows the overall rate of reduction in household debt since the 3rd quarter of 2008. This reduction is a result of both debt retirements and defaults.

Figure 27. Rate of Household Debt Reduction since Third Quarter 2008 Peak

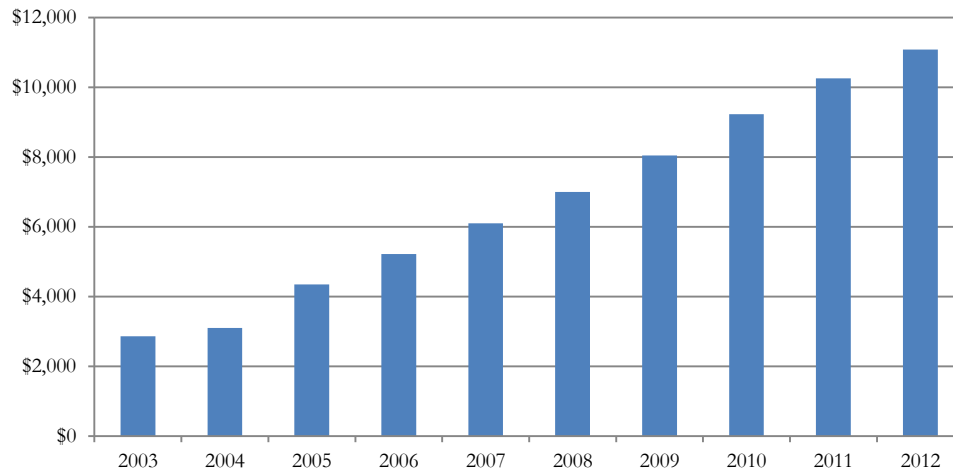


Source: Federal Reserve Bank of New York Consumer Credit Panel

Growing student loan debt will reduce the future consumption capacity of households – While data show that households have reduced overall debt loads, an emerging student loan debt growth trend may have a lasting negative impact on the economy as it will limit consumption and other economic activities, such as the purchase of homes. Since 2003, total outstanding student loan debt in the United States has grown by 275 percent, from \$241 billion to \$904 billion. Figure 28 shows the per capita student loan debt level for the age cohort between 25 and 44 years old from 2003 to the first quarter of 2012.



Figure 28. Student Loan Debt per Capita within 25-44 Age Cohort: First Quarter 2003-2012



Sources: Federal Reserve Bank of New York Consumer Credit Panel, US Census Bureau

The Housing Market

The housing market is improving and is no longer a drag on growth - Continued increased sales and construction activity over the summer has contributed to much needed strengthening in the housing market both nationally and in Colorado. As discussed in recent OSPB forecasts, the health of the housing market is a critical factor for economic recovery, and the activity in housing is still well below historical levels.

During the downturn in housing, real estate markets were characterized by tightening lending standards, weak demand for housing, and an alarming decline in home prices which precipitated a large amount of negative equity (“underwater” mortgages) and foreclosures. The collapse of the housing market created large inventories of homes for sale with a shrinking pool of homebuyers. This simultaneous increase in supply and decrease in demand placed sustained downward pressure on prices.

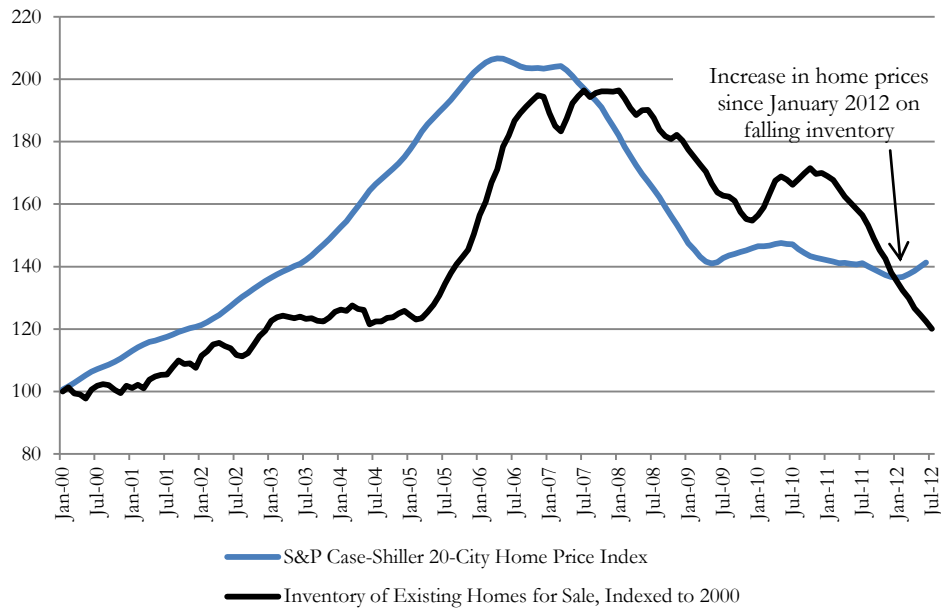
In recent months, historically low interest rates coupled with more attractive reduced home prices, facilitated an increase in the number of home sales. Data from the Colorado Association of Realtors shows home sales in the second quarter of 2012, the most recent quarter for which data is available, rose by 16 percent from the same period in 2011. At the national level, preliminary data from the National Association of Realtors showed that existing home sales in July had risen more than ten percent from the same month in 2011.

A portion of the excess inventory of homes for sale from the aftermath of the housing boom and bust has been sold and the balance of supply and demand is beginning to return to a more positive dynamic. This is allowing home prices to appreciate somewhat in Colorado and in more areas of the



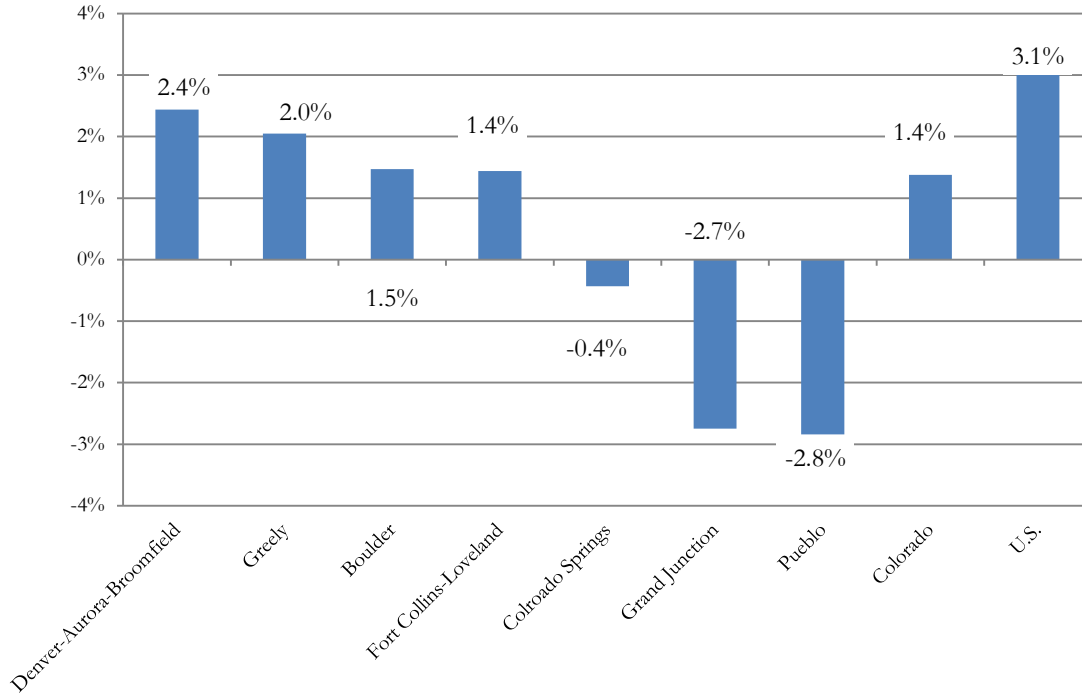
country, as illustrated by the Case-Shiller home price index and National Association of Realtors housing inventory data in Figure 29.

Figure 29. Case-Shiller Home Price Index and Existing Home Inventory Since 2000



Source: Standard and Poor's and National Association of Realtors

Home values are experiencing different trends across the state – While the state as a whole has shown consistently increased sales activity and price increases over the last few months, housing market performance has varied in different parts of the state based on local economies. Figure 30 shows the performance of home prices in various Colorado cities compared with the state and nation as a whole.

**Figure 30. FHFA House Price Index Percent Change from 2011 Q2 to 2012 Q2**

Source: Federal Housing Finance Agency House Price Index

Negative equity is decreasing, which can generate economic benefits – One of the important impacts of recent home price appreciation is the decrease in negative equity realized by “underwater” borrowers. Recent data reported by CoreLogic, a prominent source of housing market data, shows that the 10.8 million negative equity mortgages that existed in the United States at the end of the second quarter of 2012 was 23.7 percent lower than the number of negative equity mortgages outstanding three months prior. Colorado accounted for nearly 209,000 negative equity mortgages and this number was down from approximately 237,000 such mortgages in the state at the end of the first quarter of 2012. Colorado had the fifteenth largest number of outstanding mortgage loans with five percent or less equity at the end of the second quarter of 2012.

The impacts of the appreciation in home values and greater home equity are numerous. Homeowners experience a positive “wealth effect” which can spur consumer spending. Additionally, with greater home equity, homeowners may have a greater ability to sell their home and move to areas with better job opportunities which will help improve the sluggish job market and unemployment situation. Further, greater home equity enables entrepreneurs to gain access to financing to start or expand a business.

Home price appreciation is likely to be modest – Although home prices have risen during the past few months, price increases are expected to be muted over the near term. Much of the recently observed price recovery is mostly due to the re-balancing of supply and demand in the housing



market as a large number of buyers were attracted to the market by very low interest rates and market-clearing house prices. The increased building activity encouraged by higher prices will lead to growth in the supply of homes on the market. This, along with the other factors facing the housing market discussed in this section, will place some downward pressure on appreciation.

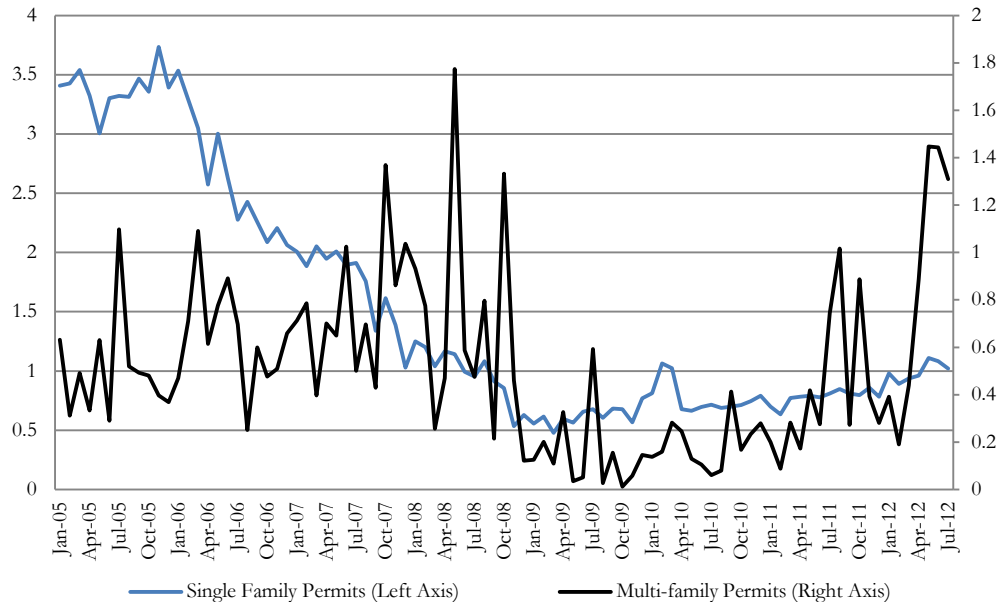
Rental vacancies remain very low, making homeownership more attractive and spurring multifamily home construction – During the economic downturn, more households chose to rent rather than make home purchases due to the high level of uncertainty regarding home prices and employment. Additionally, large numbers of mortgage defaults caused many homeowners to rent, and tighter lending standards made homeownership less possible. As a result, the number of vacant rental properties has fallen nationwide and in Colorado, causing a steady and relatively large increase in the cost of rent. This has made homeownership more attractive recently, as the cost of buying a home is in many cases more favorable when compared to renting.

Homebuilding activity has increased – As homebuilders see home prices rise, it becomes more attractive to begin construction of new homes, which also has positive ripple effects throughout the economy. Because housing construction is still at very low levels, the economic impacts will not be large. Figure 31 shows the issuance of new building permits in Colorado. The data illustrates a recent trend of accelerating growth in permit issuance. This trend is stronger in Colorado than the national economy, likely supported by its relatively strong economic prospects and population growth.

The current strong market for rental housing also makes construction of new multi-family housing units more attractive, as illustrated by the growing number of new multi-family construction permits. Figure 31 illustrates the surge in multi-family permit issuance in recent months. This trend may be supported over the medium- to long-term by the presence of a growing number of homebuyers interested in smaller and more affordable homes than in the past, such as duplexes, townhomes, and condominiums. Also, a higher proportion of individuals and families are likely preferring to rent rather than own due to more negative perceptions of homeownership resulting from the housing bust. Further, renting provides flexibility in today's labor market which requires more flexibility and mobility than was the case in previous years.



**Figure 31. Colorado New Housing Permits (*in Thousands*),
Single Family and Multi-Family**



Source: U.S. Census Bureau, New Private Housing Units Authorized by Building Permits, Seasonally Adjusted, Three-month moving average

Several factors will prevent a more robust housing recovery – While the housing market has begun to rebound both nationally and in Colorado, a booming recovery is not expected. As a primary factor in the health of the housing market, persistently high unemployment will restrain growth as many would-be home buyers will be unwilling or unable to obtain mortgage loans without long-term employment. In addition to sluggish job growth, any consequential rise in interest rates will act as a check on home price appreciation to the extent it makes homeownership less affordable.

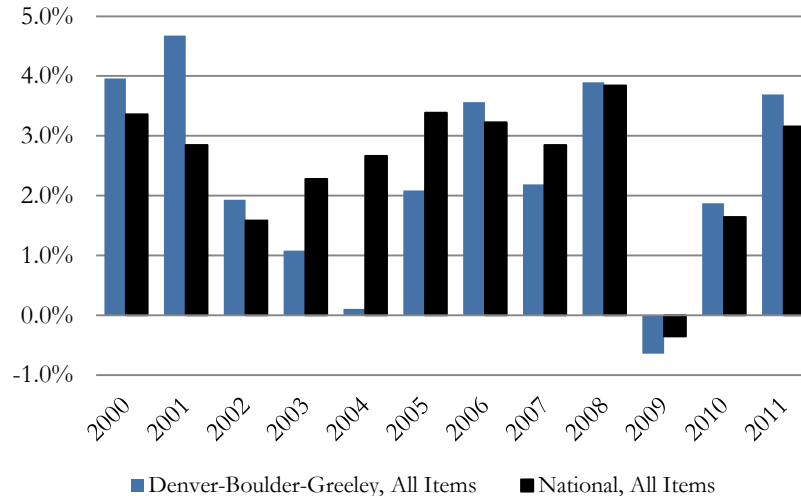
Housing permits in Colorado will increase to 17,100 in 2012 and 21,100 in 2013 as builders respond to stabilizing home prices and a greater balance of supply and demand. National residential permits will experience slightly lower growth.

Price Levels

Overall price levels in Colorado and the nation have shown slow growth but are expected to increase – The consumer price index (CPI) measures the change in retail prices for a basket of goods and services. As shown in Figure 32, which compares the national and Denver-Boulder-Greeley CPI for all items, overall price increases in Colorado have been stronger than the nation's.



Figure 32. CPI for Denver-Boulder-Greeley and Nation, Actual, 2000 to 2011



Source: Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers, All items, Denver-Boulder-Greeley, CO and U.S.

The U.S. Bureau of Labor Statistics reported that the CPI nationally increased 0.6 percent in August, the largest increase since June 2009. About 80 percent of the increase was accounted for by the cost of gasoline index, which rose 9.0 percent. Additionally, drought conditions throughout the crop growing season in 2012 have led to expectations that food prices will increase further during the latter part of 2012 through 2014. Higher fuel and food prices can hurt the economy as it results in fewer resources for other uses.

Producer prices are experiencing upward pressure – Increases in prices paid are beginning to be reported in the Institute for Supply Management's surveys of both manufacturing and non-manufacturing businesses. The manufacturing price index sharply increased by 14.5 percent in August, reflecting high prices of raw materials and food stuffs. This is the largest month-over-month increase since September 2005 and the first month since April that the index has reflected an increase in the price of raw materials. A representative from the food, beverage, and tobacco industry in the survey noted that the U.S. drought has severely impacted the price of raw materials. Prices paid by the non-manufacturing sector for purchased materials and services also experienced a sharp increase in August, jumping 9.4 percent. Higher producer prices drive up business costs and limit resources for other productive uses, inhibiting business growth.

The Denver-Boulder-Greeley Consumer Price Index will increase 2.2 percent in 2012 and 3.1 percent in 2013. Much of the increase is being driven by higher rental costs, commodity prices, and food prices. Nationally, consumer prices will increase 2.3 percent in 2012 and 2.9 percent in 2013. National producer prices will grow 3.0 percent in 2012 and 6.1 percent in 2013.

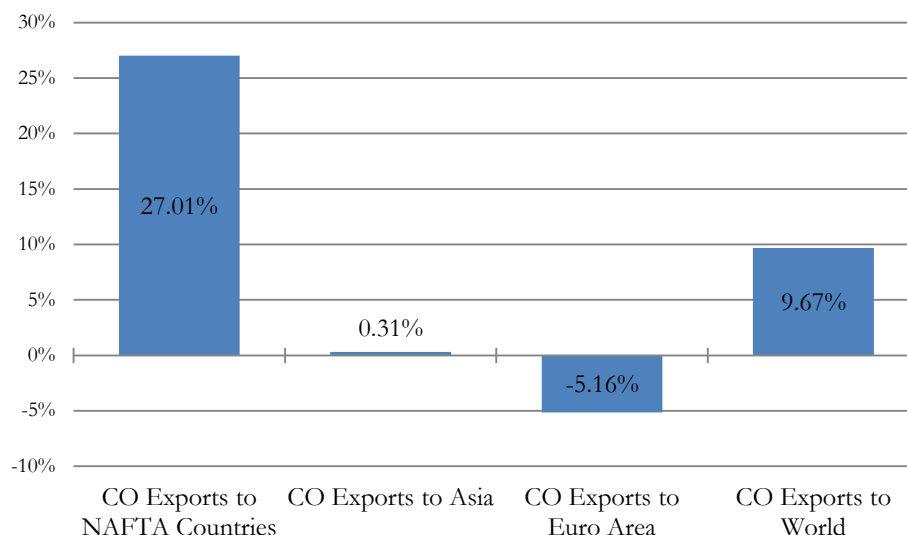


International Trade

Export growth continues, though the global slowdown has weakened demand for American goods – Through July, U.S. exports were up 6.8 percent and Colorado's exports were up 9.7 percent over the same period a year ago. These growth rates represent a slowing trend. As the European sovereign debt crisis persists and Asian economies soften, domestic producers are selling fewer products abroad. The ISM survey of national supply managers' new export orders index for manufacturing goods has indicated contraction for three consecutive months.

Trends in Colorado exports are shown in Figure 33. Exports to Asia and Europe are weak or dropping. However, Colorado's exports were sustained in part by a boom in the sale of engines and motor parts to countries in the North American Free Trade Agreement (NAFTA), which represent Colorado's largest trading partners.

Figure 33. U.S. and Colorado Exports to Europe, % Change, Summer 2011 through Summer 2012
Compared with Same Period a Year ago

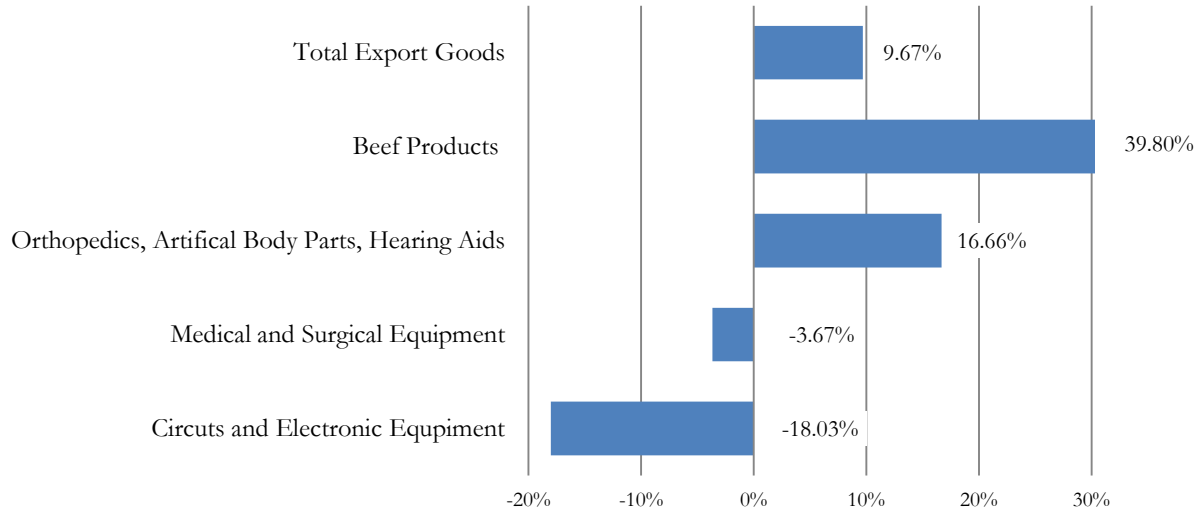


Source: World Institute for Strategic Economic Research (WISERTrade) based on Data from the U.S. Census Bureau

Colorado goods exports by type – Circuits and other electronic equipment, beef products, and medical equipment are Colorado's largest exports. Circuits and electronic equipment, the largest export category in terms of dollar value, decreased by 18.0 percent in the past year with major drops in Asia as manufacturers pulled back on production due to the slowing global economy and a high level of inventory. However, with rising incomes and a growing appetite for American beef products, fresh and frozen beef exports expanded by nearly 40 percent in Asian markets, though Colorado's recent drought may reduce future exports of agricultural goods and livestock until producers can rebuild their herds.



Figure 34. Colorado's Top Commodity Exports to the World, % Change, 2012 through July compared with same period in 2011



Source: World Institute for Strategic Economic Research (WISERTrade) based on Data from the U.S. Census Bureau

Colorado's export of services will continue to benefit the state – Colorado's strong services sector encompasses engineering, legal, accounting, technological, consulting, and other services. According to the Bureau of Economic Analysis (BEA), U.S. trade in services facilitated by improvements in information and communication technologies have grown more quickly than trade in all other services. Though data on Colorado's export of services is not available, the state's services have most likely benefited from improvements and cost reductions in these technologies, as well as growth in developing economies, such as Brazil, China, India, and other Asian economies.

ISM's new export orders index for services and non-manufacturing activities in the United States for August registered 52, indicating that the export of services continues to grow and has not yet been as negatively affected by the slowing global economy as the export of goods.

Table 5
History And Forecast For Key Colorado Economic Variables
Calendar Year 2008 - 2014

Line No.		Actual				September 2012 Forecast		
		2008	2009	2010	2011	2012	2013	2014
	Income							
1	Personal Income (Billions) /A	\$216.0	\$205.8	\$213.5	\$225.6	\$235.3	\$244.7	\$257.1
2	Change	5.3%	-4.7%	3.7%	5.7%	4.3%	4.0%	5.1%
3	Wage and Salary Income (Billions)	\$117.0	\$112.6	\$114.3	\$119.7	\$124.3	\$128.7	\$134.9
4	Change	3.6%	-3.8%	1.5%	4.7%	3.9%	3.5%	4.8%
5	Per-Capita Income (\$/person)	\$44,180.0	\$41,388.0	\$42,295.0	\$44,088.0	\$45,281.7	\$46,434.0	\$47,927.2
6	Change	3.8%	-6.3%	2.2%	4.2%	2.7%	2.5%	3.2%
	Population & Employment							
7	Population (Thousands)	4,901.9	4,976.9	5,050.9	5,119.8	5,196.2	5,269.9	5,364.7
8	Change	1.7%	1.5%	1.5%	1.4%	1.5%	1.4%	1.8%
9	Net Migration (Thousands)	40.5	36.3	38.1	33.5	36.5	40.2	54.5
10	Unemployment Rate	4.8%	8.1%	8.9%	8.3%	8.0%	7.8%	7.0%
11	Total Nonagricultural Employment (Thousands) /B	2,350.4	2,245.2	2,222.4	2,258.2	2,296.7	2,320.3	2,358.0
12	Change	0.8%	-4.5%	-1.0%	1.6%	1.7%	1.0%	1.6%
	Construction Variables							
13	Total Housing Permits Issued (Thousands)	19.0	9.4	11.6	13.8	17.1	21.1	28.4
14	Change	-37.5%	-50.8%	23.9%	19.1%	24.0%	23.0%	35.1%
15	Nonresidential Construction Value (Millions) /C	4,114.0	3,351.7	\$3,124.9	\$3,910.8	\$3,676.3	\$3,635.8	\$3,838.1
16	Change	-21.8%	-18.5%	-6.8%	25.2%	-6.0%	-1.1%	5.6%
	Prices & Sales Variables							
17	Retail Trade (Billions) /D	\$74.8	\$66.5	\$70.5	\$75.5	\$80.2	\$83.3	\$87.4
18	Change	-0.7%	-11.1%	6.0%	7.2%	6.1%	3.9%	4.9%
19	Denver- Boulder- Greeley Consumer Price Index (1982- 84=100)	209.9	208.5	212.4	220.3	225.2	232.1	238.5
20	Change	3.9%	-0.6%	1.9%	3.7%	2.2%	3.1%	2.7%

- /A Personal Income as reported by the federal Bureau of Economic Analysis includes: wage and salary disbursements, supplements to wages and salaries, proprietors' income with inventory and capital consumption adjustments, rental income of persons with capital consumption adjustments, personal dividend income, personal interest income, and personal current transfer receipts, less contributions from government social insurance.
- /B Includes OSPB's estimates of forthcoming revisions to jobs data that are currently not published. The jobs figures will be benchmarked based on Quarterly Census of Employment and Wage data to more accurately reflect the number of jobs in the state than what was estimated based on a survey of employers.
- /C Nonresidential Construction Value is reported by Dodge Analytics (McGraw-Hill Construction) and includes new construction, additions, and major remodeling projects predominately at commercial and manufacturing facilities, educational institutions, medical and government buildings. Nonresidential does not include non-building projects (such as streets, highways, bridges and utilities).
- /D Retail Trade includes motor vehicles and automobile parts, furniture and home furnishings, electronics and appliances, building materials, sales at food and beverage stores, health and personal care, sales at convenience stores and service stations, clothing, sporting goods / books / music, and general merchandise found at warehouse stores and internet purchases. In addition, the above dollar amounts include sales from food and drink vendors (bars and restaurants).

Table 6
History And Forecast For Key National Economic Variables
Calendar Year 2008 - 2014

Line No.		Actual				September 2012 Forecast		
		2008	2009	2010	2011	2012	2013	2014
	Inflation- Adjusted & Current Dollar Income Accounts							
1	Inflation-Adjusted Gross Domestic Product (Billions) /A	\$ 13,161.9	\$ 12,757.9	\$ 13,063.0	\$ 13,299.1	\$ 13,565.1	\$ 13,822.8	\$ 14,140.7
2	Change	-0.3%	-3.1%	2.4%	18%	2.0%	1.9%	2.3%
3	Personal Income (Billions) /B	\$ 12,460.2	\$ 11,867.0	\$ 12,321.9	\$ 12,947.3	\$ 13,452.2	\$ 13,936.5	\$ 14,633.4
4	Change	4.6%	-4.8%	3.8%	5.1%	3.9%	3.6%	5.0%
5	Per-Capita Income (\$/person)	\$40,964	\$40,891	\$38,608	\$39,782	\$40,543.5	\$41,230.8	\$42,545.0
6	Change	3.6%	-0.2%	-5.6%	3.0%	1.9%	1.7%	3.2%
	Population & Employment							
7	Population (Millions)	304.4	307.0	309.3	311.6	315.0	317.8	321.1
8	Change	0.9%	0.8%	0.8%	0.7%	1.1%	0.9%	1.0%
9	Unemployment Rate	5.8%	9.3%	9.6%	9.0%	8.3%	8.2%	7.6%
10	Total Nonagricultural Employment (Millions)	136.8	130.8	129.9	131.3	133.0	134.1	135.7
11	Change	-0.6%	-4.4%	-0.7%	1.1%	1.3%	0.8%	1.2%
	Price Variables							
12	Consumer Price Index (1982- 84=100)	215.3	214.5	218.1	224.9	230.1	236.8	243.0
13	Change	3.8%	-0.4%	1.6%	3.2%	2.3%	2.9%	2.6%
14	Producer Price Index - All Commodities (1982=100)	189.6	172.9	184.7	201.0	207.1	219.8	231.0
15	Change	9.8%	-8.8%	6.8%	8.8%	3.0%	6.1%	5.1%
	Other Key Indicators							
18	Corporate Profits (Billions)	1,248.4	1,342.3	1,702.4	\$ 1,827.0	\$ 1,901.9	\$ 1,925.0	\$ 2,107.1
19	Change	-17.4%	7.5%	26.8%	7.3%	4.1%	1.2%	9.5%
20	Housing Permits (Millions)	0.905	0.583	0.605	0.607	0.758	0.884	1.146
21	Change	-35.3%	-35.6%	3.7%	0.3%	24.9%	16.6%	29.6%
22	Retail Trade (Billions)	\$4,409.5	\$4,091.7	\$4,355.4	\$4,690.3	\$4,944.9	\$5,128.3	\$5,359.5
23	Change	-0.9%	-7.2%	6.4%	7.7%	5.4%	3.7%	4.5%

/A BEA revised NIPA component

Personal Income as reported by the federal Bureau of Economic Analysis includes: wage and salary disbursements, supplements to wages and salaries, proprietors'

/B income with inventory and capital consumption adjustments, rental income of persons with capital consumption adjustments, personal dividend income, personal interest income, and personal current transfer receipts, less contributions from government social insurance.



Governor's Revenue Estimating Advisory Committee

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